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NEWS: EUROPE

Balladur to unveil jobs package

By David Buchan in Paris

The French government is expected on Sunday to announce modest job-creating measures to boost the country's fragile economic recovery.

The package may include tax incentives to create jobs in services to compensate for those still lost in industry.

Mr Edouard Balladur, the prime minister, has said reversing the climbing jobless rate is his highest priority. But evidence of uneven industrial production and lacklustre consumer spending towards the end of last year have shaken government confidence in the strength and durability of the recovery.

President François Mitterrand is sniping at the conservative premier for doing too little to create jobs and too much to cut welfare benefits.

Mr Balladur's room for manoeuvre is limited. He has handed monetary policy to the newly independent Bank of France which is likely to see what Sunday's announcement contains before making any change in interest rates.

Mr Balladur still has the tool of fiscal policy, but is caught

between his promise not to raise any taxes this year and his commitment to reducing the budget deficit.

France quickly rejected yesterday the call by Germany's opposition Social Democrats that Bonn's continental partners should pick up more of the tab for Britain's European Union budget rebate.

Recent aid pledges to farmers, schools and recapitalisation of ailing state companies like Air France and Bull, the computer company, threaten to take a big chunk of the proceeds from privatising Elf Aquitaine, the state oil major, company, and other sell-off candidates this year.

The government is considering linking repayments to companies of value added tax (which is refunded to companies on their exports outside the European Union) to job creation. French employers have already bristled at any such restriction on their VAT refunds, which they regard as a right, not a favour.

Another possible measure might be to give chain stores and petrol stations tax incentives to rehire the service staff they have laid off in recent years.

Ahern weighs jobs against inflation perils

By Tim Coone in Dublin

The test for Mr Bertie Ahern, Ireland's finance minister, as he presents his 1994 budget today is to halt the rise in unemployment without stoking inflation and currency instability. At 18.4 per cent, unemployment is Ireland's most pressing economic problem.

Mr Ahern is in the happy position of facing the year ahead with buoyant tax revenues, historically low interest rates, accelerating growth at home, economic recovery in Ireland's main overseas markets, low inflation (1.5 per cent in 1993) and an opening fiscal deficit of only 2.1 per cent of GNP, one of the lowest in the OECD. Labour ministers in the Fianna Fail-Labour coalition, have been championing at the bit to take a more expansionist approach to economic policy and have heralded the package as a budget for jobs.

Mr Ahern has echoed concern on jobs but has tried to damp expectations of a "give-away" budget. Fiscal discipline will continue to be the overriding goal. "I am determined to ensure that the progress we have made in the public finances is not used as a base for paying ourselves more," he said. "Competitiveness" is the "highest priority".

His words are welcomed by the Irish Business and Employers' Confederation (IBEC), but it is suspicious of Mr Ahern's tax and spending plans. IBEC points out that the government has reduced the fiscal deficit in recent years through tax increases rather than spending cuts.

Employers, trade unions and opposition leaders are united in pressing for reductions in

the tax burden on the lower paid, and on social insurance contributions of both employers and employees. High taxation, especially at the lower end of the pay scale, is widely viewed as a principal reason why Ireland's good economic performance in recent years fuelled significant growth in unemployment.

In framing this budget - Mr Ahern has about £200m (\$286m), or around 0.7 per cent of GNP, to play with to ease the tax burden - increased economic activity leading to higher tax revenues will give the minister room to cut some taxes without increasing the overall borrowing/GNP ratio. Most likely to go will be a widely disliked 1 per cent income levy, introduced in the last budget, and which has been the main stumbling block in drawing up a new centralised pay agreement over the next three years. A widening of the standard rate income tax band and a substantial increase in personal allowances is also expected.

In addition Mr Ahern will have anticipated privatisation receipts of some £115m from the sale of the government's 15.3 per cent stake in Irish Life, the insurance group, and an estimated windfall of some £230m accrued from a tax "amnesty" which closed this month.

BCP brokers in Dublin say that in the past three years, the capital-intensive export sector rather than domestic demand "where there has been a virtual stagnation" has provided the engine for growth in the economy.

The challenge for Mr Ahern will be to stimulate domestic demand, but without overheating the economy.

González set to face down unions

Tomorrow's general strike in Spain will expose union weakness, writes Peter Bruce

Spain is approaching its third general strike in six years tomorrow with a mixture of apathy and detachment that is sorely testing the political muscle of the country's two main trades unions.

The strike is in protest at labour market reforms being introduced by the government.

While it seems likely that transport and industry will be badly hit, and that pickets will stop many going to work, strong parliamentary support for the reforms has muted normally vociferously anti-government newspapers.

The two union leaders, Mr Nicolas Redondo of the socialist General Workers' Union and Mr Antonio Gutierrez of the communist Workers' Commissions, in trying to drum up support for the strike have insisted that the imposition of reforms without adequate negotiation had left them with little choice but to strike.

To an extent, that is true.

Prime Minister Felipe González, making full use of the country's downcast economic mood, has directly challenged the role in policy-making that union leaders have claimed for themselves since Spain's relaunch as a democracy in 1978. The reforms, designed to help Spain claw its way out of recession, will make it easier and cheaper for employers to hire and fire workers, tax unemployment benefits, and introduce what the unions call "junk jobs" - apprenticeships paid below the minimum wage.

Mr González put a time limit on talks about the reforms with unions and employers last November and quickly pressed ahead with them after the deadline expired. He had earlier angered the unions, partly in an effort to mollify currency market scepticism about the strength of the peseta, by declaring that he would impose the reforms whether he had union agreement or not.

While the government was shaken into increasing social security spending after a general strike in December 1988, ministers this time are declaring loudly that tomorrow's strike, even if it succeeds in closing down the country, will not alter policy.

That remains to be seen. But it is becoming increasingly difficult for the unions to claim widespread work stoppages during these strikes as a measure of support for the aims of the strike. Spain is easy to close down - especially by hitting transport - but it seems certain that many Spaniards will simply take the day off, fearful of pickets or simply the difficulty of struggling into work on commuter lines. A half-day general strike in protest at unemployment benefit cuts in 1992 is generally considered to have failed. The unions had hoped to spend most of January

building support for the strike but have had the wind taken out of their sails by two events: the Banesto bank crisis, which brought home the depth of the recession to many Spaniards, and the collapse of a union-owned housing co-operative, which has led to protests against the General Workers' Union.

For Mr Redondo the PSV debacle and the prospect of a lukewarm strike tomorrow are serious blows. He is due to retire this spring and many analysts believe that when he goes, the nature of the inter-course between the unions and any government in Madrid will change, with unions concentrating less on regaining their political influence and more on relations with employers.

It was Mr Redondo who, in 1974, proposed the young Felipe González as leader of the then exiled socialist party at a national congress held on the outskirts of Paris.

Then, and until five years ago, the General Workers' Union was an appendage of the socialist party. But as his protégé has moved steadily towards the political centre, the friendship and the institutional links have expired.

Many of the political battles fought by the unions with the Socialist party since they first came to power in 1982 have been the stamp of a personal war by Mr Redondo against Mr González.

His departure from the union will leave his younger Workers' Commission colleague, Mr Gutierrez, as the unchallenged authority in Spanish trade unionism. Pragmatic, clever and middle class, Mr Gutierrez is a much cooler customer, less ambitious for the political limelight and easier in the company of corporate bosses. Ministers believe he will have already written off tomorrow's strike as too late to stop the reforms.



A woman making her way up a street in Lisbon yesterday in front of two strike-bound trams

Public-sector wages strike brings disruption to Lisbon

By Peter Wise in Lisbon

A 24-hour national strike by Portuguese public-sector workers yesterday seriously disrupted hospitals, schools, courts, public transport and other services. Unions said the action was backed by up to 90 per cent of workers concerned.

The strike was in protest against a proposal by the centre-right social democrat government to limit 1994 pay rises in the public administrative sector to 2 per cent. Unions are demanding a 9 per cent increase. The strike was the first to be jointly backed by both the communist-led CGTP-Interindustrial and socialist-dominated UGT union federations.

Mr Anibal Cavaco Silva, the prime minister,

has made clear that his government aims to set an example for private-sector employers by keeping pay rises low. This follows the collapse of efforts to negotiate a national wage pact between unions and employers.

Union leaders said yesterday they were prepared to call a jointly backed one-day general strike if the government refused to negotiate a compromise on pay. The government is concerned that a public-sector pay increase above 2 per cent would fuel inflation and increase the budget deficit, which is forecast to fall from 8.5 per cent of gross domestic product in 1993 to 6 per cent this year. Public-sector unions claim that the government pay offer represents a sharp cut in real earnings, given that the forecast inflation rate for 1994 is 6 per cent.

Commission is split on steel tubes venture

By Andrew Hill in Brussels

The European Commission is divided over whether to block a three-way European joint venture in the steel tubes sector on competition grounds.

Commissioners are due to decide on the deal, which involves French, German and Italian companies, at their meeting today.

It is probably the most difficult competition decision they have faced for more than a year and officials said yesterday it was impossible to predict which way a vote would go.

Mr Karel Van Miert, competition commissioner, has proposed outlawing the joint venture between Vallourec, a French steel tubing company, and subsidiaries of Mannesmann of Germany and Ilva of Italy.

If a majority of the 17 commissioners supports Mr Van Miert's proposal, it will be only the second time the EU's 1990 merger regulation has been used to block a deal outright. The Commission has reached

the four-month deadline for a decision on the case. Under merger rules, the deal will go ahead if no decision is taken.

The Commission's merger task force opposes the deal because it believes it would create an anti-competitive "duopoly" in the sector, with the joint venture and Sandvik, the Swedish engineering group, accounting for nearly 70 per cent of the European Union market.

But some commissioners believe the alliance should be encouraged as the best means of competing with potential rivals in Japan and eastern Europe.

If Mr Van Miert's proposal is approved it will set a precedent in European competition law, by endorsing the principle that a duopoly can exist, even if there are no structural links between the companies involved.

The two French, two Italian and two German commissioners are expected to reject Mr Van Miert's proposal, backed by the Luxembourg commissioner.

Car dealers may keep special terms

By John Griffiths

Carmakers may be able to retain exclusive distribution networks after 1995. Mr Martin Bangemann, the industry Commissioner, indicated yesterday. Exclusive distribution networks are against EU competition rules, but the motor industry was given a ten-year exemption in 1985.

The industry had argued that the complexity and safety implications of vehicles required dedicated dealers who had to invest heavily in order to repair and maintain vehicles adequately.

The industry has become anxious that friction over car pricing within the EU might lead to the exemption not being renewed after 1995.

Mr Bangemann said yesterday he will propose an extension of the exemption in a

report he is drafting on the competitiveness of the motor industry. However, carmakers might be required to make further progress towards price harmonisation as part of Mr Bangemann's proposals.

The Competition Commissioner, Mr Karel Van Miert, has yet to offer a clear view of his department's attitude towards renewal.

The previous Competition Commissioner, Sir Leon Brittan, had taken a hard line on the issue, linking renewal firmly to greater car price harmonisation.

The European motor industry's main lobby organisation, the European Automobile Manufacturers' Association, has claimed that failure to renew the concession would seriously damage the industry's efforts to restructure.

Ariane seeks to reassure insurers

By Rachel Johnson

Arianespace, the Paris-based manufacturer of the Ariane rocket, yesterday launched an investigation into the failure of its 63rd mission - which ditched Turkish and European telecommunications satellites insured for \$350m into the Atlantic Ocean on Monday.

In Kourou, French Guiana - the company's South American launchpad - and Paris, officials sought to reassure clients and insurers that the programme of ten launches in 1994 would not be affected by the disaster.

"We hope insurers will continue to invest their confidence in the Ariane system," an official declared. The inquiry, which will be conducted together with the European Space Agency and the Central National d'Etudes Spatiales, will report next month.

It was the sixth failure for the rocket, which controls over half the commercial space launch market, since its first lift-off in 1979. It emerged yesterday that a premature shutdown of an engine followed by overheating in the unmanned Ariane-4 rocket caused the failure 13 minutes after launch. It was the first failure for four years and industry participants denied that the crash marked a turning-point in Arianespace's fortunes.

Although the high-risk commercial launch market has become highly competitive, the French-led consortium has retained its grip in spite of looming Russian, Japanese and Chinese rivalry and American competition. In the US, three out of eight launches of General Dynamics' Atlas rocket failed last year, while McDonnell-Douglas' Delta rocket has been overtaken by the move towards heavier satellites.

Yeltsin in last effort to retain reformer

By Leyla Boulton in Moscow

President Boris Yeltsin will today try to persuade Mr Boris Yefremov, leading Russian reformer, to stay on as finance minister, amid continuing concern about the future of market reform.

Mr Yeltsin and Mr Yefremov will discuss conditions on which he would stay in office in an attempt to shore up confidence in Russia's turbulent reform process. Mr Yefremov, the mainstay of economic reform, said last week he was quitting because two key policy opponents had not been sacked and because Mr Viktor Chernomyrdin, the prime minister, planned "non-monetary" methods to fight inflation.

He has also called for the removal of Mr Viktor Geraschenko, the central bank chairman, who believes that tough monetary and fiscal policies are not what Russia needs. Mr Yefremov has made no secret of his desire to take over the central bank, but such a move would never be endorsed by parliament.

The commander of Russian troops in east Germany yesterday appealed to Bonn to speed up its housing programme for troops returning home, writes Judy Dempsey in Berlin.

General Matwey Burlakov said there was a serious shortfall of housing despite the German government's programme to provide DM3.55bn (\$4.8bn) for financing 45,000 homes in Belarus, Ukraine and Russia.

Lira crisis leaves Çiller's policies in tatters

John Murray Brown on how the collapse of the Turkish currency has undermined the PM's low interest rate strategy

Turkey's currency crisis intensified yesterday as the lira slipped further on the foreign exchanges. It fell to 17,900 to the US dollar, a drop of 4 per cent since Monday's close.

Yesterday's fall followed a run on the currency last week and was another rebuff to the government of Mrs Tansu Çiller.

Since she came to office last summer, Mrs Çiller has been driven by an unorthodox belief that lower interest rates were the cure for the country's ills. Lower rates, she argued, would result in lower debt servicing costs, a lower budget deficit and thus lower inflation.

The policy is today in tatters with the central bank having been forced to raise inter-bank rates, as high as 200 per cent at one point, to restore confidence in the lira.

The initial trigger for currency crisis that began last

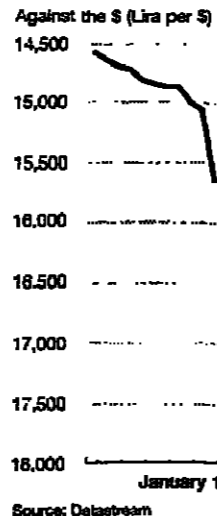
week was the announcement that US rating agencies - Moody's and Standard & Poor's - were downgrading Turkey's credit rating.

Seeking a rating was always going to be a double-edged sword. It presupposed that Turkey would, if not improve on, at least maintain its current economic performance. That has not happened. Turkey's public finances are in a shambles. Privatisation has been blocked by political and legal wrangling. The public sector deficit is expected to have been about 18 per cent of gross national product in 1993. The target for 1994, at 14 per cent, is hardly more encouraging.

For Mrs Çiller and her technocrats the whole episode has been a salutary reminder that after a decade of reform, the Turkish economy is that much more vulnerable to policy error. A faster depreciation of the lira may help the trade

Turkish Lira

Against the \$ (Lira per \$)



Source: Datastream

is in the midst of an import-led consumer boom, with the economy growing by close to 8 per cent in 1993. As a result the deficit on the current account for 1993 reached close to \$5bn and is officially projected at \$4.4bn in the current year.

It is against such a fragile background that the currency crisis has occurred. Heavy central bank advances to the Treasury coupled with the recent salary pay-out to civil servants created an excess of lira in the market last week. Traders also reported tight supplies of foreign exchange when tourist receipts and workers remittances traditionally slow down.

Another contributing factor is that many Turks now choose to keep their savings in hard currency accounts, a measure of just how far Turkey's 70 per cent inflation rate has taken its toll. In the end, what might have started as a minor shake, became a full-scale currency

quake. The immediate fall-out is hard to gauge. The international banks that lend to Turkey will be looking for reassurances that it can continue to service its foreign debt. After record borrowings in 1993, Turkey's external public and private debt, already \$59bn by the end of September, is estimated to have reached Treasury, needing at least \$2bn just to refinance existing debt. It is expected to seek an early return to the Samurai market, the Japanese bond market for foreign issuers, perhaps next month, in order to re-establish its presence in the market.

Paradoxically, the foray into international debt markets had been one of the successes of 1993, with the Treasury skillfully tapping the international appetite for Turkish paper. As one Japanese banker put it, "Turkey is a little like Yugoslavia used to be - high risk, offering a good yield, and [on

top of that it is] an OECD member."

Moreover the availability of foreign debt enabled the government to restructure its domestic borrowings. It managed to reduce the amounts borrowed as well as extending the maturities.

One western economist estimated that Turkey may have saved as much as \$1bn in 1993 by shifting its domestic borrowing strategy from short-term to longer-term issues.

For this reason, Moody's and S&P's decision is that much more critical.

In the short term, the higher than projected domestic interest rates will add to the budget deficit. Higher borrowing costs will stifle private sector investment at a time when Turkish firms need to prepare themselves for the competition which will follow on Turkey's completion of a customs union

with the European Union, now set for 1996. The central bank has so far declined to issue any instruction to the private banks.

However, some economists believe another, perhaps more dramatic, one-way currency movement could precipitate a full-scale foreign exchange crisis. They point out the banking sector's overall short position - the difference between banks' foreign exchange liabilities and domestic lira assets - is close to \$5bn.

In the end, what happens will depend as much on political as economic developments with all the parties now eyeing the outcome of the forthcoming municipal elections.

And as one Turkish observer pointed out, the recent interest rate rise will have been particularly severe for the small traders and artisans, who traditionally have supported Mrs Çiller's True Path party DYP.

THE FINANCIAL TIMES
Published by The Financial Times
(Europe) GmbH, Nibelungenplatz 3,
50115 Frankfurt am Main, Germany.
Telephone +49 69 250-2211, Fax +49
69 250-4451, Telex 416193. Represented
by Edward Hugo, Managing Director.
Printer: DTM Druck-Vertrieb und
Marketing GmbH, Admiral-Rosenblatt-
Strasse 31, 63263 Neu-Isenburg (owned
by Hartmut International).
Responsible Editor: Richard Lambert,
c/o The Financial Times Limited,
Number One Southwark Bridge, Lon-
don SE1 9HL, UK. Shareholders of the
Financial Times (Europe) GmbH are:
The Financial Times (Europe) Ltd,
London and FTI (Germany) Adver-
tising Ltd, London. Shareholders of the
above mentioned two companies are:
The Financial Times Limited, Number One
Southwark Bridge, London SE1 9HL.
The Company is incorporated under the
laws of England and Wales. Chairman:
D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue
de Rivoli, F-75004 Paris Cedex 01. Tele-
phone 01 41 49 60 21, Fax 01 41
49 60 23. Printer: S.A. Nord Est
1521 Rue de Caen, F-91000 Roissy
Cedex 1. Editor: Richard Lambert.
ISSN 1148-2733. Commission
Paritaire No 678902.

DENMARK
Financial Times (Scandinavia) Ltd,
Vindmøllestræde 43A, DK-1161 Copenhagen
K, Denmark. Telephone 33 13 44 41, Fax 33
93 35 35.

Consumer confidence underpins US growth

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NEWS: INTERNATIONAL

S Africa all-race election talks fail

By Patti Waldmeir in Pretoria

Talks between right-wing leaders, the South African government and the African National Congress appeared to have broken down last night, increasing chances the Inkatha Freedom Party will boycott April's all-race elections.

Talks are due to resume tomorrow, but negotiators from the government and the ANC said privately they did not expect an agreement. They had hoped to reach a compromise before the weekend, when an Inkatha party conference will decide whether to participate in the poll. If the talks fail again tomorrow, it is likely Inkatha's Chief Mangosuthu Buthelezi will try to persuade the conference to boycott the elections.

Many senior Inkatha negotiators are believed to favour participation, but Chief Buthelezi has said he would boycott the poll unless the constitution is amended to strengthen regional powers. Last night's talks broke down over this

issue, with Inkatha insisting regions be granted "exclusive" powers which could not be overruled by central government, while the ANC wished to maintain overriding powers for the centre in certain circumstances.

Inkatha and the white right Afrikaner Volksfront (Afrikaner People's Front) participated in the talks, with delegations from the ANC and Government. ANC and government officials left the door open to further talks, even after the weekend. Mr Roelf Meyer, government chief negotiator, said "the process never stops".

But once the party conference has taken a decision, it would be difficult to reverse it: with only 90 days before the poll, Inkatha loses valuable campaigning time with any further delay.

Negotiators last night held out hope that separate talks with the white right wing might still yield an agreement which would prevent conservative Afrikaner parties from boycotting the poll. They said

progress had been made towards agreeing the Afrikaners' demand for a "volkstaat" or homeland, with the ANC agreeing in principle on establishment of a state with some autonomy.

The government will also pursue separate talks with the Zulu King Goodwill Zwelithini on self-determination for the Zulu nation. Pretoria hopes to woo the king with promises of protecting his salary and position under a new constitution.

In exchange, he would endorse the elections against the wishes of Chief Buthelezi. National Party officials argue that an endorsement from the King would significantly undermine an Inkatha boycott, as many Inkatha supporters are conservative rural Zulus whose allegiance is to the Zulu monarchy.

Sources close to the king say a separate peace is unlikely. He has followed the political lead of his uncle, Chief Buthelezi, since assuming the throne, and is unlikely to break decisively with him now.

China in warning on HK airport

China last night moved to close off the option of Hong Kong proceeding to build the colony's new airport without agreement when it said it would abrogate any deal made without Beijing's consent, writes Simon Holberton in Hong Kong.

The Hong Kong and Macao Affairs Office of the Chinese government said the post-1997 government would not be liable for any expenditure and debt incurred in building the new airport. It also said any contract awarded without Beijing's consent would be invalid after 1997.

The tone of the statement, rather than the specific threats, underlined the low point to which Anglo-Chinese co-operation has sunk. The Hong Kong government has always sought Chinese government approval for any contract which spans 1997.

The statement seems to have been prompted by the Legislative Council's approval of an extra HK\$1.6bn (£139m) of finance last week and the government's decision to go to LegCo for a further HK\$4.6bn in the coming week.

It emerged yesterday that Britain's approach to China last week for a meeting of the Airport Committee - the governmental body set up to discuss the project - got little response.

This was in spite of the implicit offer to put more of Hong Kong's money into the HK\$160bn airport and related infrastructure development.

Australian prices up 0.2% in quarter

Australia's consumer price index rose 0.2 per cent in the last quarter of 1993, bringing the annual rate to 1.9 per cent, writes Nikki Tait in Sydney.

The figure was at the lower end of market expectations and prompted Mr Ralph Willis, the new Australian treasurer, to concede that the government's budget forecast of a 3.5 per cent rise in prices in 1993-94 was "considerably overstated".

The most marked fall came in the housing component, due to lower mortgage costs. Clothing and household equipment also registered falls.

The CPI news triggered a rally in the Australian bond market and pushed the Australian dollar above 71 US cents for the first time in about eight months. It later drifted back to close at US\$0.7083.

● KPMG Peat Marwick, the international accountancy firm, has reached a \$A136m (£61.5m) settlement with the government of Victoria over a disputed audit of the Tricontinental Bank. This is believed to be the largest settlement of an audit negligence claim in Australia.

The merchant banking arm of the former State Bank of Victoria collapsed in 1990, with an estimated loss of \$A2.6bn. Victoria's former Labor government subsequently sued KPMG Peat Marwick for \$A1.1bn, alleging the firm was negligent in signing the bank's accounts as "true and fair" in 1988.

Japanese premier's appeal aims to put pressure on LDP



Hosokawa: popularity is high



Ozawa: wants general election



Kaifu: supporter of reform

Hosokawa to seek popular backing for political reform

By William Dawkins in Tokyo

Mr Morihiro Hosokawa, the Japanese prime minister, will today hold a televised press conference calling for popular support for his plans to reform the corruption-tainted political system.

This is an attempt to put pressure on a divided opposition Liberal Democratic party to accept a compromise on the four political reform bills before they expire at the end of the parliamentary session next Saturday.

There is widespread support for reform, between 50 per cent and 60 per cent according to recent polls, indicating that Mr Hosokawa's address should increase his already high popularity.

Last week his plans were voted down at the last parliamentary hurdle, the upper house, by members of the two largest parties, the LDP and the Social Democratic party, the largest coalition member - which both fear losing seats under the proposed new system.

Officials from the seven-party coalition and the LDP yesterday agreed to ask the lower house of parliament to agree to the formation of a panel to discuss a compromise.

However, the panel has slim chance of striking a deal in time for parliament to vote on it before the Saturday deadline. The LDP and Social Democrats are too deeply split on reform to be able to take coherent positions.

If the panel fails to reach an accord, Mr Hosokawa has threatened to try to override the upper house's rejection by putting the plans to a last-minute vote in the lower house.

Support of two-thirds of the lower house is needed to overturn the upper house, in what one political analyst dubbed the "kamikaze option".

Mr Hosokawa is unlikely to win such a vote, but it could encourage a fresh round of defections from the LDP, thereby strengthening the coalition's fragile majority.

The coalition is divided over what to do if, as is likely, Mr Hosokawa fails to

achieve reform by the weekend. Mr Hosokawa has hinted that he would resign, leaving it to the coalition - possibly strengthened by LDP defections - to form a new cabinet.

A close aide to Mr Hosokawa, Mr Shusei Tanaka, was yesterday reported as saying that resignation was "highly possible" as a result of the difficulties facing the political reform bill. "The prime minister is not the type of person who seeks to cling to a position," Mr Tanaka told Kyodo News Service.

But some coalition leaders say Mr Hosokawa should stay in office regardless of the fate of the reforms and work on stimulating Japan's sluggish economy. "When we're in this severe a recession, it's not all desirable to create a (political) vacuum," said Mr Tomiichi Murayama, Chairman of the Social Democrats.

However, Mr Ichiro Ozawa's Japan Renewal party, the most influential coalition partner, has suggested that a general election should be called. Japanese press reports yesterday said Mr Ozawa has asked Mr Toshiki Kaifu, a former LDP prime minister who supports reform, to defect to the coalition as a possible successor to Mr Hosokawa.

Mr Kaifu is among the 70 LDP members of parliament who openly support reform. But it is uncertain whether all LDP reformists would follow Mr Kaifu, because he is not a powerful political fund-raiser, the vital ingredient that Mr Ozawa provided when he led the LDP defection that brought down the former LDP government last summer.

The business community views the prospect of a snap election with dismay, because this would delay an urgently needed economic stimulus package and threaten the government's finances when it is already late with the budget for the fiscal year starting in April.

However, public distaste for the horse-trading over reform could manifest itself as a protest vote against the LDP if a snap election were called. That would suit Mr Ozawa's strategy of further dividing and weakening the LDP.

Companies lose pollution case

By Emiko Terazono in Tokyo

A Japanese district court yesterday ordered a group of leading companies to compensate residents for suffering caused by air pollution from factories.

The ruling comes after a 12-year wrangle since plaintiffs sued several companies, including Tokyo Electric Power, NKK and Tomen, as well as the state, for pollution from factories and car exhausts. The plaintiffs sought ¥2.8bn (\$15.5m) damages and the suspension of emissions of smoke from the factories and vehicles.

Kawasaki, known as one of the most pol-

luted districts in the country, and the factory emissions containing sulphur dioxide were responsible for the illnesses.

Mr Nemoto rejected a request by residents to order tighter controls on discharges of pollutants from the factories, saying the plaintiffs' claims were too vague.

Separately, a group of eight Dutch citizens held in Japanese camps in Indonesia during the second world war filed a lawsuit with the Tokyo district court yesterday seeking compensation of at least \$30,000 (£13,513) per plaintiff.

Price cuts anger drugs groups

By Paul Abrahams in Tokyo

Japan's Ministry of Health and Welfare has told domestic and overseas drugs groups that prices of some medicines will be cut. The surprise cost-saving move is in addition to regular price cuts implemented every two years and previously announced price cuts on fast-selling medicines.

The ministry's decision, which has angered the pharmaceutical industry, is likely to undermine further the growth of Japan's drugs market, the world's second most important. Foreign pharmaceutical companies will today set out their complaints at a meeting with the ministry.

Analysts had forecast that healthcare reforms and previously announced price cuts would limit annual growth of Japan's pharmaceuticals market to between zero and 3 per cent for the rest of the decade. Domestic groups will be hit particularly by the new measures because of their dependence on the local market.

Ministry officials are understood to have told Ono, the Japanese group, and Roche Nippon, the subsidiary of the Swiss company, that prices of at least one of their drugs would be cut because of their rapid sales growth.

The health ministry is under pressure from the finance ministry to contain its spending after a sharp fall in tax receipts during the recession. Pharmaceuticals represent about 28 per cent of Japan's health expenditure.

Ono's treatment for diabetic neuropathy, Kinadex, responsible for most of the group's sales growth last year, is understood to have been targeted. Nippon Roche said one of its successful anti-infective drugs was involved.

The group's wide spectrum antibiotic, Rorephin, has proved highly successful since its recent launch.

Mr Hiroaki Shigetani, president of Nippon Roche, said: "We're terribly upset because of its lack of consistency. They keep

changing the rules. It does little to encourage innovation if every time you launch a successful product it's hit by a special price cut."

The Swiss company had already been hit by arbitrary price cuts announced late last year when it was told the price of Rofor-on-A, its interferon product for hepatitis C, would be reduced.

Other interferon makers, such as Sumitomo Pharmaceutical, Daiichi and Yamanouchi, were also informed of reductions at that time. The cuts for interferons are expected to range from 30 per cent to 13 per cent.

Makers of cholesterol-lowering products were told last year that prices would be slashed. The drugs involved were Mervatin - Japan's top-selling medicine, made by Japan's second largest drugs company, Sanryo - and Lipovas, a drug from Banyu, Merck's Japanese subsidiary. Their prices are expected to be cut by about 12 per cent.

NEWS IN BRIEF

Nigeria unrest hits oil profits

Oil companies in Nigeria estimate losses in production and equipment of about \$200m (£139m) last year through civil disruptions and protests against loss of land, pollution and inadequate living conditions, writes Paul Adams in Lagos.

Shell, which produces half of Nigeria's quota of 1.8m barrels a day, recorded 108 attacks or stoppages with the loss of 12m barrels in 1993. Agip and Elf have reported smaller losses.

Nigeria's oil minister, Mr Don Eteibet, said at the weekend that the government was considering tax concessions to the oil companies for developing the local communities.

But this month's budget is not helping to encourage investment. The introduction of a fixed rate of foreign exchange has doubled the cost of bringing in capital. The multinationals spend millions of dollars a year on basic infrastructure in the Niger delta in eastern Nigeria.

Algeria conference snub

Algeria's leading political parties yesterday boycotted the first day of a conference for national reconciliation called by the country's five-man High State Council, writes Francis Gibles.

The two-day meeting aims to end the violence which over the past two years has claimed over 3,500 lives and is also set to approve a new collective presidency to replace the body which has ruled Algeria since elections were cancelled in January 1992.

The Islamic Salvation Front, which was poised to win the election, dismissed the idea of dialogue with those who had "stopped the electoral process and split the blood of Moslem people", while the leader of the lay opposition party, the Front des Forces Socialistes, Mr Hocine Ait Ahmed, said that any head of state appointed by the conference would have no legitimacy.

Lesotho truce agreed

The two warring factions in the Lesotho army have agreed to stop fighting and meet the government for talks to settle their dispute, Reuters reports from Maseru.

The government spokesman, Mr Seeiso Serutla, said yesterday the two sides were selecting delegates and would meet the government for talks he expected to extend over several days. The British Commonwealth yesterday said it had sent two envoys to talk with the Lesotho government and military and political leaders.

New Vietnam leaders

Vietnam's ruling Communist party yesterday voted 20 new members on to its executive Central Committee, including the minister in charge of relations with the US, Reuters reports from Hanoi.

The new members, elected on the last day of a party conference in Hanoi, also included an industrialist, reflecting the growing importance Vietnam's leaders attach to modern industry.

Despite successes for government financial policy, including slashing inflation to 5.2 per cent last year from 17.5, the finance minister, Mr Ho Te, and his deputy, Mr Nguyen Sinh Hung, did not win places.

Arafat receives welcome but no money from Saudis

By Roger Matthews, Middle East Editor

Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, left Saudi Arabia yesterday after a two-day visit which marked the first thaw in relations between the two sides since the PLO support for Iraq in the Gulf war.

Saudi anger at the PLO stance has not eased significantly since the conclusion of the war and Mr Arafat's meeting with King Fahd bin Abdul Aziz was described by one diplomat as "correct but cool".

The Saudis have demanded an apology from those Arab states and organisations which failed to rally to the support of the Gulf states following the Iraqi invasion of Kuwait. "We cannot forgive, and we cannot forget," said a senior Saudi official recently. "But there are two things in this world which you cannot escape, and they are families and neighbours."

It was always to be expected that at some time Mr Arafat, as

part of the Arab family, would again be received in Saudi Arabia. But officials have also made clear that the PLO could not expect any further direct financial support, one of the main objectives of Mr Arafat's visit to the kingdom.

Saudi Arabia has agreed to provide an initial \$100m (£67.5m) for specific infrastructure projects in the occupied Gaza Strip and the West Bank town of Jericho, following an Israeli withdrawal. Officials in Riyadh stressed that its aid would be directed through international agencies and closely monitored. Any further disbursements would depend on the effective utilisation of the first tranche.

Support in Saudi Arabia for the September 13 declaration of principles signed by Israel and the PLO was tempered both by its hostility to Mr Arafat personally, and more generally by the belief that the Arab negotiators were more likely to achieve a comprehensive peace by retaining a united front.

Stop promising heaven, Rafsanjani told

Iran's President Ali Akbar Hashemi Rafsanjani is facing mounting criticism at home as the economy continues to suffer from weak international oil prices.

Iran is dependent on oil for 85 per cent of its foreign exchange income and it is estimated that every \$1 fall in the international price of oil results in a loss of \$1bn in Iran's annual revenues.

President Rafsanjani recently attempted to play down the economic crisis by saying that Iran could continue with its development programmes regardless of oil prices.

But the bravado cannot mask the real economic problems the country faces. Prices have mounted steeply since the government unified three different exchange rates last March, leading to an effective devaluation from IR70 to the dollar to IR1,400. The rial has subsequently fallen to more than IR2,000 to the dollar.

The English-language Kayhan international, complained that spiralling prices were making the lives of many Iranians a misery. "Gallop inflation, open mismanagement of

the economic sector, indifference towards the common strata, decline in the international price of oil - all will get together to make life intolerable and miserable for this nation of over 60m people," it wrote.

As subsidies to the poor are lifted, the import of luxury goods is being seen as a symbol of skewed priorities and corruption. In a Friday prayers sermon delivered in Qom last month, Ayatollah Ali Meshkini, speaker of the assembly of experts, the body that elects the spiritual leader, said: "Instead of promising heaven, the government should also be thinking about solving this deadly inflation. But I know that this problem of high prices will not be solved until those who have luxurious lifestyles... and who do not feel social problems and who use their expertise to manage their own affairs are no longer in power. And there are many of them."

Joynhuri Eslami, a Tehran

daily, chastised the government for promising international Monetary Fund-style measures of privatisation and reductions in subsidies. It accused Mr Rafsanjani's economic team of being overawed or deceived by liberal western economic theories and urged the government to restore some state controls.

Trade has also suffered as a spending boom which began in 1990 has resulted in Iran's formerly exemplary payments record being badly tarnished. "But at the same time Iran's debt load is manageable because it is almost all

short-term." The most exposed countries are Iran's main trading partners, Germany and Japan.

Imports have been cut, aided by the refusal of foreign banks to confirm Iranian letters of credit and by the country being in effect off-cover for most export credit agencies. Under these circumstances, foreign investment, which Mr Rafsanjani has sought for a number of years, remains only a possibility.

Attempts at rescheduling the debt over the medium-term have not yet met with success both for practical reasons but also because of Iran's poor international image. The US has put Iran back on its list of favourite enemy nations and Iran has done little to help itself by failing to lift the death sentence imposed on British writer Salman Rushdie.

"The sentiment in Europe is somewhere between regret and frustration," said one banker. "Iran has not had a bad name in trade circles in the past but

the Iranians do everything to make it difficult to love them."

Mr Rafsanjani has quashed suggestions that Iran's second five-year development plan due to begin at the start of the Iranian year on March 21, should be postponed.

The plan which is due to take over where the first five-year plan leaves off, assumes an annual average income of \$15.5bn from oil, but the price of Iranian oil has dropped to less than \$12 a barrel. This year Iran will be lucky to earn \$14bn, compared with official projections of \$17bn.

The second plan is aimed at extending the government's privatisation campaign, reducing subsidies, authorising the government to seek \$2.4bn in long-term loans for the construction of four dams, as well as seeking foreign investment in the form of joint ventures.

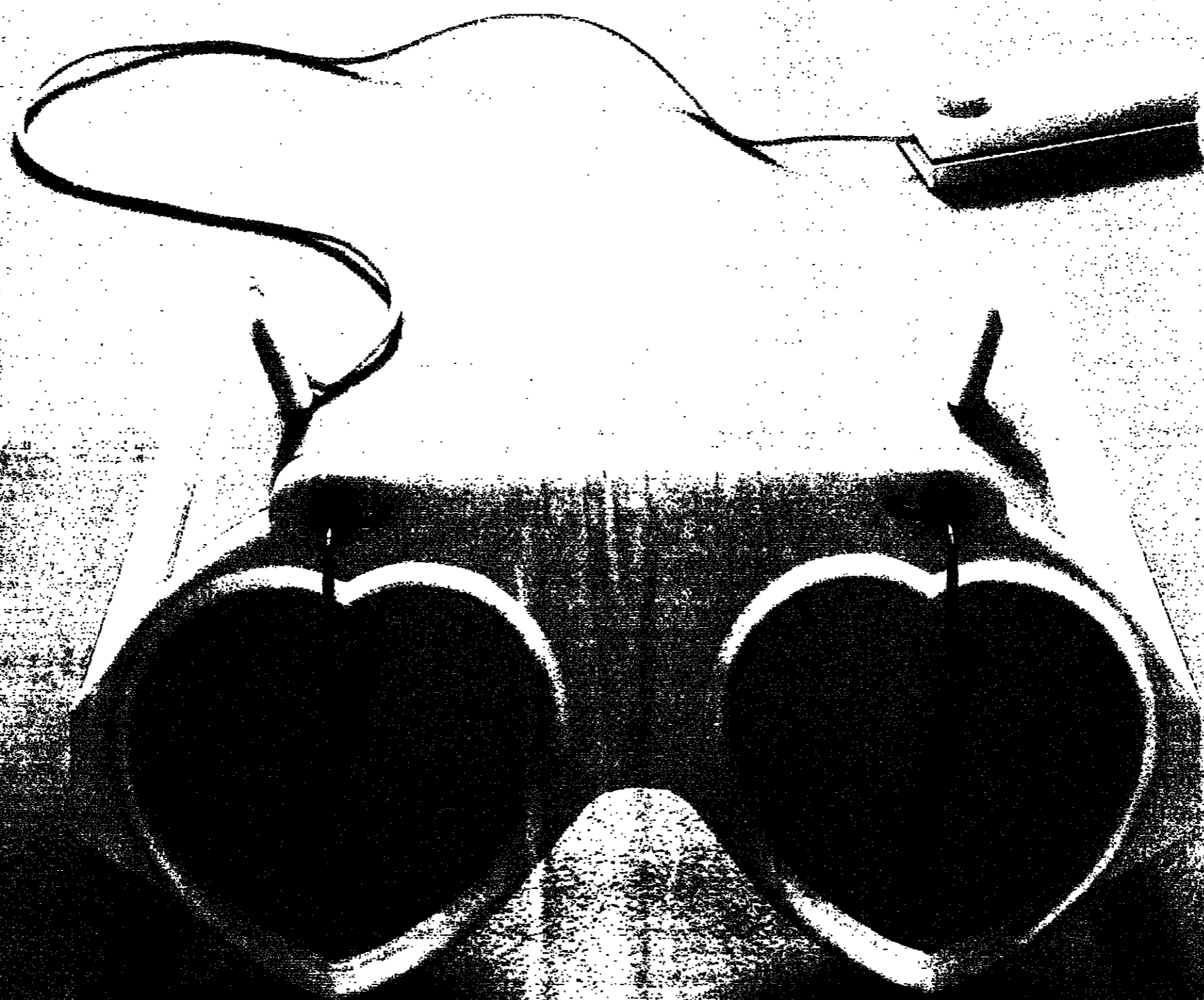
Nevertheless there are many government officials who share the view of Mr Ali Akbar Naeq-Nouri, the speaker of the Iranian majlis (parliament), who said last month that the legislature wanted to postpone the start of the five-year plan for a year "because one cannot study a plan in a crisis".

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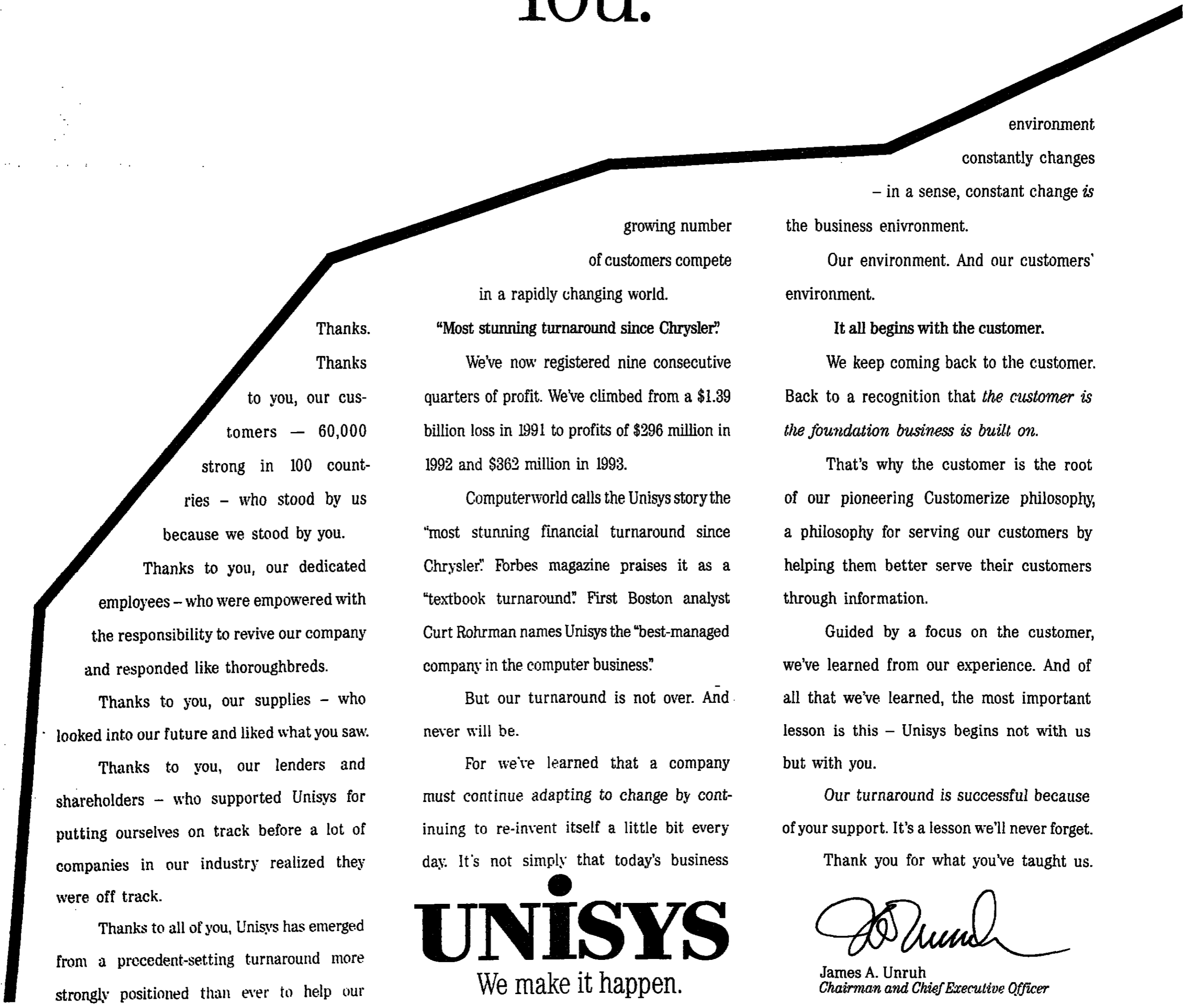
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Major seeks to avert public sector pay row

By Philip Stephens,
Political Editor

Mr John Major drew back yesterday from a confrontation with key public sector workers by signalling that efficiency savings would allow them to get round the government's cash freeze on its pay bill.

Downing Street officials said politically sensitive groups such as nurses and doctors could expect the government to meet the recommendations of independent pay review bodies for increases this year of between 2.5 per cent and 3 per cent.

The softening in the interpretation of the freeze in the public sector pay bill announced in last November's Budget came as Mr Major said he regretted raising taxes after pledging at the 1992 election to reduce them.

But amid further fierce exchanges in the Commons on the impending tax increases, the prime minister insisted that the Conservatives had not deceived voters at the last election.

Mr Major told MPs: "Events have forced us to raise taxes. I regret that. But it is necessary to raise taxes to make sure that we cut the borrowing

requirement and provide the opportunity for sustained growth with low inflation."

The prime minister also won unexpected backing from Mr Norman Lamont, the former chancellor, who said that Labour's spending plans would mean still higher taxes.

But as the Commons prepared to reject an amendment to the finance bill blocking the imposition of value added tax on fuel, Mrs Margaret Beckett, Labour's deputy leader, insisted "the biggest tax hike in British history" marked a "total deception" of the electorate.

Downing Street indicated meanwhile that the prime minister was "relaxed" about the independent pay review bodies' decision to link their recommendations to the 2.7 per cent increase MPs awarded themselves.

Most Whitehall departments could expect efficiency savings of at least 2 and perhaps 3 per cent. That suggested that government would be able to meet most of the review boards' recommendations without breaching overall spending targets.

Officials insisted that this would not be a relaxation of the stance on public sector pay. It was suggested

that while the 1.5m workers covered by the review bodies could expect pay rises above the present 1.9 per cent inflation rate, the other 3m public sector employees could expect tougher settlements.

The government could take a tough line with some low-paid employees such as local authority manual workers and perhaps, at the other end of the scale, with high-paid groups such as armed forces chiefs. But it could not afford a confrontation with the nurses, doctors and teachers who account for the bulk of the workers covered by the review bodies.

Britain in brief



Underwriters see upturn in marine rates

Rises in insurance rates paid by ship owners have led to an improvement in the results of London-based insurance companies specialising in marine insurance.

The Institute of London Underwriters, which provides back-up services to 74 London marine and aviation companies, said yesterday that its marine underwriters were experiencing the strongest upturn in rates for years.

The ILU warned, however, that it would be some time before profitability is restored, following severe price competition and heavy losses in recent years.

The ILU companies - which account on the same three-year accounting basis as Lloyd's - said preliminary figures indicated a strong increase in profitability last year. Premium income registered for hull business increased from £361m in the first year of three-year 1991 account, to £624.5m for the first year of the 1993 account. In the same period hull claims rose to £63.5m from £50.5m.

EU rural aid eligibility rises

The number of people living in areas of rural Britain who qualify for aid from European Union structural funds has doubled under the latest announcement from the European Commission.

Some 2.8m people live in areas covered by the Objective 5b programme of assistance to rural communities.

The assistance comes from the EU's structural funds, including the European Regional Development Fund and the European Social Fund. The total in 1993 was £50m.

The newly eligible areas include large parts of Devon, parts of Somerset, Suffolk, Norfolk and the Fens, Northumberland and large parts of Lincolnshire, North Yorkshire and Cumbria. Adjacent to central Wales, which already receives Objective 5b funding, parts of Herefordshire and Shropshire have become eligible. In Scotland, large parts of Central Grampian and Tayside regions have become eligible.

Plea over political funds

Companies should be required to ballot shareholders before making donations to political parties, the Institute for Public Policy Research said in a report published yesterday.

The left of centre think-tank also recommended restrictions on donations from overseas and a requirement for parties to publish names of donors giving more than £5,000 a year.

The report said the current system of funding UK political

parties had led to a huge gap between the resources available to the Tories and the opposition parties. In the last parliament, the Tories had an income of £34m, Labour £16m and Liberal Democrats £5m.

Defence group cuts 400 jobs

British Aerospace yesterday announced more than 400 redundancies at its Royal Ordnance munitions and guns division.

The reduction at Royal Ordnance's Chorley factory in Lancashire brings to about 1,700 the total of Bae job cuts announced in the past two weeks. Six other plants in the group's civil aircraft and guided-weapons divisions are affected by the wave of cuts.

Sock Shop staff face shake-up

Sock Shop, the sock and fashion retailer, is shifting its 400 staff from full-time to part-time contracts, in line with a growing trend in the retail sector. Managers of Sock Shop's outlets, of which there are nearly 150, were handed yesterday from giving details of the change but it is understood that full-time staff will be switched to contracts of 20 hours per week over three days.

Homosexual law reform likely

The prospect that the House of Commons may lower the age of consent for homosexuals has increased after a decision by Mr Michael Howard, the home secretary, to back calls for it to be reduced from 21 to 18.

Mr Howard's decision to join a majority of the cabinet in supporting any amendment proposing 18 may swing in favour of the change a number of MPs on the right of the Conservative party in next month's vote on the issue.

Boost to cable TV industry

The cable television industry in the UK plans to spend £1.2bn this year in building the networks that carry both television channels and telecommunications services.

This figure, based on a survey of its members by the Cable Television Association, represents almost as much as in the past three years.

The extra construction will increase the number of people employed in the industry by the end of the year to a peak of 18,000 - half directly by the cable operators and the rest through sub-contractors - compared with the present 6,300 staff and around 3,000 employed by sub-contractors.

Swan Hunter talks 'useful'

Price Waterhouse, receivers of Tyneside shipbuilder Swan Hunter, said a day-long meeting in London yesterday with German shipbuilders Bremer Vulkan, potential bidders for the yard, had been "useful". Further talks are to be held.

Companies eye Channel rail link projects

By Charles Batchelor,
Transport Correspondent

Private sector companies interested in financing and building the £2.6bn Channel tunnel rail link will be expected to declare their interest over the next few weeks in spite of the many question marks which still hang over the project.

Although it is expected to take the government at least two years to get legislation authorising the line through parliament, negotiations will begin at an early stage on the form that private sector involvement will take.

Several construction companies have declared an interest and at least two consortia involved in earlier stages of the 68-mile rail link are still in existence. But further groups are expected to emerge over the next few months.

The government will seek to avoid the lengthy delays and cost overruns which marked the construction of the Channel tunnel by seeking a consortium with a balance of construction, banking and other interests, said Mr Peter Brittle of Sir Alexander Gibb, consultants to the project.

Several construction companies, including Tarmac and John Laing are assessing the possibility of bidding.

Laing said it was still keen to carry out the work as part of a consortium. Early in the rail link project it joined the Rail-Europe consortium with a group of banks, engineering consultants and construction companies though it is not

clear whether the same consortium would bid this time.

EuroRail, a consortium of Trafalgar House, BICC and GEC, has also expressed an interest. "But there is a lot of detail which we still have to look at to see precisely what they mean," a spokesman said.

Ove Arup, an engineering consultancy involved in drawing up plans for the route said it intended to join one of the consortia being established.

Hochtief, a German contractor is also thought to be leading one consortium while UK consultants expect that Japanese and other European groups may be interested.

As well as work on the line there are also sizeable contracts to be won to build the stations. The St Pancras terminus in London is expected to cost around £500m.

Blue Circle Industries, working with several local authorities, has put forward plans for commercial development at Ebbsfleet, near Gravesend, while a consortium including P&O, Tarmac, Land Securities, John Mowlem and Newham council have made proposals for a station at Stratford.

To increase the attractiveness of the project to the private sector, UK transport secretary Mr John MacGregor has decided to give the winning bidder the revenues from the train services operated through the tunnel between London, Paris and Brussels.

European Passenger Services, which will run the trains on behalf of the three national railways, expects to start a limited service in May.



Graham Stringer, of Manchester City Council, and Malcolm Southgate, of European Passenger Services, marked the start of construction work on British Rail's International Depot yesterday

Building work on BR depot begins

Work began yesterday on the latest servicing and maintenance depot for Eurostar passenger trains travelling through the Channel tunnel to mainland Europe.

The £2.5m Manchester depot is the third of four which will service trains around the UK.

The main site in west London has been completed, work began in November 1993 at Plymouth and construction will start soon at the Scottish depot near Glasgow, British Rail said.

Two return trains a day will link Manchester to Paris and Brussels from next year.

● The value of construction orders won by contractors in the UK rose by a tenth to £18.06bn during the first 11 months of last year compared with the corresponding period in 1992.

Figures published yesterday by the UK Department of the Environment indicate that a broad-based recovery has begun in one of the worst-hit industries during the recession.

The total value of orders at constant 1985 prices, allowing for seasonal variations, were 14 per cent higher during September, October and November than the previous three months and 23 per cent higher than during the corresponding period a year earlier.

The biggest increases over the 11 months were in public and private sector housing where the value of orders in current prices rose by 35 per cent and 19 per cent respectively.

Milk board is pressed to review contracts

By Alison Maitland

The British government is pressing the Milk Marketing Board to allow dairy farmers to revoke contracts they have signed with its planned successor body, Milk Marque, in the light of changes to its reorganisation plans.

The board said yesterday it would consider the matter once the government had approved the revised proposals, although it argued that it was under "no legal compunction" to do so.

The board has dropped proposals to transfer the bulk of its assets to the new farmers' co-operative and offered concessions to the dairy trade on its milk selling system in response to government concern that Milk Marque might be anti-competitive.

Negotiations with agriculture ministry officials over the changes have forced it to delay liberalisation of the £3.3bn milk market from April to November.

The board is now planning to float up to 49 per cent of its processing subsidiary Dairy Crest, more than originally planned, to create a viable asset base for Milk Marque in the absence of Genus, the cattle breeding service, and National Milk Records, which are to be hived off.

Mr Peter Morgan, the board's head of corporate affairs, said: "Our legal advice is that the contracts are perfectly valid. Those that signed with Milk Marque did so voluntarily." But he acknowledged that the ministry wanted to ensure farmers were content with the contracts they had signed. "We wouldn't want to keep people in against their will."

The government is understood to be concerned that producers came under pressure to sign contracts with Milk Marque late last year before knowing the final shape of the reorganisation scheme. Nearly half the 28,500 dairy farmers in England and Wales have already signed up.

Employers 'not pursuing anti-union drive'

By Robert Taylor,
Labour Correspondent

Britain's companies are not pursuing an anti-union offensive among their employees, the Confederation of British Industry said yesterday. The employers' organisation says the sharp decline in union membership and collective bargaining since the mid-1980s reflects "a shared wish in the workplace for dealings on a different basis".

The CBI told the House of Commons employment com-

mittee's inquiry into the future of unions: "There is no evidence that employers have been forcing the pace."

"A substantial number of employers work with trade unions in their businesses and find the relationships more or less satisfactory. More harmonious relations... may provide some positive reasons for employees to be less interested in union membership."

In a document submitted to the committee, it says "there is still scope for a continuing role for trade unions" but only if

they adapt to change in the enterprise rather than obstruct. It argues that they should concentrate on providing advice and support facilities for individual workers in "seeking to invoke their legal rights" rather than on collective representation.

But the CBI says companies "anticipate dealing more directly with the workforce and building up relationships on an individual basis - but frequently to complement, rather than replace collective bargaining."

It says unions should "never again" have "the capacity to disrupt the commercial and day-to-day life of the nation and exercise excessive influence over government expenditure during the late 1970s".

But the CBI backs the retention of the Trades Union Congress on statutory bodies such as the Health and Safety Commission, the conciliation service Acas, and the commissions on racial equality and equal opportunities. "Employers see merit in trade union involvement in bodies which

bear on their members' direct interests and concerns in the workplace", it says.

Unlike the Institute of Directors, the CBI does not advocate any further legislation to deal with union power.

● A survey of 79 employer organisations in Britain published today by the research body Industrial Relations Services says that, in the past three years, they have undergone a change of role from collective bargainers with trade unions to advisory and lobbying bodies.

Co-ordinated EU interest rate cuts urged by Smith

By David Owen

Mr John Smith yesterday called for an immediate cut in interest rates to reduce the risk of the recovery being choked off by impending tax increases.

Speaking in Bonn, the leader of the opposition Labour party urged the government to "co-ordinate" further interest rate cuts with Britain's European Union partners. He said: "This is particularly important in Britain where the Conservative government are forcing through massive tax increases which even the chancellor of the Exchequer now admits will check the recovery."

Addressing a conference staged by Germany's SPD opposition party, Mr Smith argued that the consequences of allowing recovery to falter were "too serious to contemplate".

"The cohesion of our own communities is at stake," he said. "Recession and economic decline are clearly the breeding ground of crime, intolerance and racism. Europe cannot afford a downward spiral that would threaten not just our prosperity but our democratic way of life."

As MPs at Westminster began considering the finance bill implementing Mr Kenneth

Clarke's first Budget, Mr Smith said the issues of jobs, investment and growth were back at the top of the economic agenda - "where they always should have been". But he urged his audience not to let the right dominate the current debate about jobs "as they did over inflation in the 1980s".

Signalling one likely theme of Labour's European election campaign in June, Mr Smith said there was a clear "jobs battleground" ahead.

"It is a choice between a high wage, high-tech, high skilled route to the highest possible levels of employment - and the Conservatives' low paid, low skilled, insecure, unsafe, deregulated economics of the sweatshop."

For Europe to prosper, what was needed was a "self-confident, adaptable, highly skilled and participative workforce", Mr Smith continued. "None of these qualities will be present in a sweatshop economy that drives down wages, removes employment rights and relies on fear to provide flexibility at the workplace."

Mr Smith said economic recovery was also necessary for the EU to fulfil its wider responsibilities by doing "all that we can to help the people of eastern and Central Europe".

Hurd invokes trade interest to defend exports

Jimmy Burns reports on the foreign secretary's evidence to the Scott arms-for-Iraq inquiry

Mr Douglas Hurd, the foreign secretary, yesterday invoked British trade interests to justify the government's decision to approve the export of British machine tools to Iraq less than two weeks before the invasion of Kuwait. In spite of intelligence warnings they could be used in weapons manufacturing.

Giving evidence to the Scott arms-for-Iraq inquiry, Mr Hurd said a ministerial meeting he chaired on June 19 1990 had taken into account the potential competition from other European Community partners.

The decision also followed the relaxation of international regulations on the sale of western technology to communist countries which was felt would be exploited by Iraq.

"We felt the time had come to change our policy. That the circumstances had changed and we should stir ourselves to pursue one of our objectives which was to promote trade," Mr Hurd said.

Challenged by Lord Justice Scott and his counsel Sir Presley Baxendale QC on whether the decision amounted to the government breaching its own guidelines, Mr Hurd said: "It was certainly pushing them [the guidelines] to the limit."

During nearly six hours of public testimony, Mr Hurd remained the consummate dip-

lomat, courteous, but at the same time unflinching in his defence of the government's position.

"I would not accept there was a deliberate bending of the rules or that there was a conniving [by ministers and officials] in undermining a publicly stated policy," he said.

Mr Hurd argued that while shortcomings may have been identified by the inquiry, the evidence was still "light years from the suggestion made by the media that ministers were secretly arming Iraq or indulging in some wicked conspiracy."

He also backed the decision of his junior minister, Mr Tristan Garel-Jones to sign a pub-

lic interest immunity certificate seeking to prevent the disclosure of government documents during the Matrix-Churchill trial.

Mr Hurd said that Mr Garel-Jones had been duty bound to sign the PII certificate as not to do so would have been "injurious to the public interest... and threatening to the efficiency of government."

He said the decision had been wrongly interpreted by the media as representing an attempt to save the government from embarrassment and deliberately designed to "result in the conviction of people who were known to be innocent."

The hearing continues today.



Douglas Hurd arrives to give evidence yesterday. Picture: Tony Anderson

Handwritten text in Arabic script: "مكتبة جامعة القاهرة"

Research round-up on quality and stress

The use of counselling in UK companies is more widespread even than in the US, claims a survey published by the TDA Consulting Group of London.

Based on face-to-face interviews and 285 responses to a questionnaire sent to human resources directors at the top 1,000 UK public and private-sector employers, the study suggests that 86 per cent of UK organisations, covering 80 per cent of the workforce, provide some form of counselling.

Research in the US between 1984 and 1992 shows that only 80 per cent of organisations with 500 or more employees had employee assistance programmes.

Ninety-nine per cent of UK organisations, meanwhile, said that they had recently undergone significant changes in structure which have had an effect on the morale of their employees.

More than 50 per cent of human resources directors cited change management and employee stress as the main issues they seek to address through counselling. Very few organisations see counselling as a "perk", most expecting bottom-line benefits such as reduced absenteeism.

The international quality standard ISO 9000 has had a mixed press. But a survey of organisations in the service sector, carried out by BDO Consulting, carries a more positive message.

Seventy-five per cent of the near 300 respondents felt that the advantages of ISO 9000 outweigh the costs. Improved consistency and efficiency head the list of internal benefits, with improved quality of service, less waste, better client retention and additional business also mentioned.

More than half of the respondents were implementing quality initiatives beyond ISO 9000, such as total quality management. Two thirds of respondents noted improved staff performance, while a little over half had seen an improved attitude to customers. However, only 45 per cent felt that staff motivation had improved.

Tim Dickson

Heavy losses on oil futures speculation which brought Metallgesellschaft, the German metals and engineering group, to the brink of insolvency this month, show how vulnerable some companies can be in today's fast-moving commodity and financial markets.

The company's fate is likely to confirm the belief of many senior managers that derivatives trading is dangerous and should be avoided. "There is almost one [large corporate treasury loss] a year," says Howard Lovell, a partner in Coopers and Lybrand's financial risk management practice, who cites other cases at Allied-Lyons and Showa Shell. "And they all seem to involve the use of derivatives."

Senior managers are certainly right to be concerned. But, like it or not, derivatives trading is a reality for most big companies: without it they would have to absorb losses on their exposure to foreign currencies and to raw materials prices.

Lovell says companies fall into three categories: those where the top management understands futures and options trading and manages it effectively; those where senior managers do not understand derivatives and have put up a blanket barrier; and those companies using these sophisticated instruments without proper controls.

Lovell believes that besides the extremely large losses that have been reported, many companies lose smaller amounts through lack of technical understanding. He knows of at least five companies which have lost up to £200,000 in the past year - in one case because a corporate trader did not properly understand the pricing of a transaction, and in another because the tax implications of a trade were not calculated.

"Every company has different sets of exposures and has to work through what its risks are, how big they are, the availability of a hedge, the cost, and whether the risk is self-insurable," says Stephen Crompton, director of treasury at SmithKline Beecham. "If a risk is very small, it may not be worth while setting up the infrastructure to manage it."

The first step is to decide the aims and policies of the treasury department. Lovell says he is tired of corporate treasurers bemoaning the difficulties of explaining derivatives to senior management: it is their responsibility to do so. Managers should not allow themselves to be baffled by the highly technical content. They should not be content with reams of computer print-outs they do not understand.

"The basic thing is to be able to distinguish between the management of exposure and speculation," says Archie Donaldson, a director of The MTM Partnership and a former

Eyeballing the finance director

Metallgesellschaft has highlighted the risks of derivatives, say Tracy Corrigan and Deborah Hargreaves



treasurer of ICL. He warns against "creating exposure in order to have something to manage".

Rather than banning speculation, though, it is necessary to identify genuine exposure and how it will be managed. "You should list and put through your board the policies you are going to pursue," adds Donaldson. For example, this should include the fixed and variable rate portions of debt, how that debt will be managed, and the limits of flexibility. The other key to safety is the enforcement of these controls. Most large losses have been incurred because dealers have doubled up on losing positions, or gone over their

exposure limits. Had these positions been detected and tackled earlier, losses would have occurred but could have been contained.

Donaldson says checks are needed to counteract the impulses of human nature. "When the trader gets it wrong, he still believes it is just a matter of timing. Then he gets frightened and covers it up."

While there is never going to be a system which a determined individual cannot abuse, adequate monitoring should ensure early detection of fraud - "before the treasurer gets on the plane", as one corporate dealer says.

"You can't stop somebody doing an unauthorised trade," admits Derek Ross, a partner of Touche Ross. "But you can make sure it can be closed out the following day."

There are several important principles to follow, according to Ross: dealing must be segregated from exchange of confirmations on trades (which is part of the pre-settlement function), and payment instructions should be independent.

In addition, the management reporting function, usually provided by the accounts department, should be responsible for performance measurement. To establish a successful hedging business, treasury should be integral to day-to-day management.

At the most sophisticated end of the scale is British Petroleum, the international oil group, whose treasury department is run like a bank. BP has established the corporate treasurer's position as a route to a seat on the board.

The original purpose of BP Finance was to raise debt and cover the company's monthly running costs: these are in sterling while its receipts are chiefly in dollars. Now, however, if it sees an opportunity to make a profit in a market, it will take it, provided it is within certain set limits.

The finance operations are run as a separate profit centre which, as well as defraying the costs of running the company, can also add its own profit to the bottom line. But BP never splits out how much has been made or lost on the treasury function.

Trading options requires a sophisticated understanding of a highly technical area, as well as advanced systems. Companies should build up their trading expertise very gradually. "The problems in a lot of companies are caused by letting amateurs play when they don't understand the risks they are taking," says one corporate trader.

Smaller companies may not want anything quite as professional as BP's dealing room. But they should identify exactly what they want before starting out.

Derivatives have proved dangerous for corporate treasurers because their complexity makes exposure harder to manage and to track. But used correctly they allow companies to reduce exposure and focus more keenly on their core business.

According to Neil Record, chairman of Record Treasury Management, the currency risk management specialist, the first thing that happens after a débacle like Metallgesellschaft is that a senior manager will ask his finance director whether a similar disaster could occur. "The finance director should be able to look him in the eye and tell him why it couldn't happen," says Record.

Enthusiasm and a mission to train

Lisa Wood interviews the chief executive of Investors in People UK

Mary Chapman is getting used to the response at social gatherings when she describes her new job. "Chief executive of Investors in People UK. Umm. I've heard of IIP." Then silence.

Chapman feels some sympathy. "The name is getting to be known, but less well understood is what IIP is about," she says.

IIP is a national standard for effective training. It was developed by the government as part of its strategy to address Britain's dismal record in this area. Until now Training and Enterprise Councils have been responsible for persuading employers to seek to attain the standard and validating it when they have done so.

IIP, which was launched yesterday, will now inject a national dimension into promotion and marketing. Supported by £2m of public funds, it should ensure that standards of assessment remain consistent and of high quality.

Chapman brings enthusiasm to her new job, which she says is based on her experience of working at L'Oréal, the French cosmetics company, latterly as director of personnel operations and management development for the group in the UK. Like other French companies, L'Oréal subscribes to a training levy which she says is evidence of a French national commitment to training.

The levy, she says, does not guarantee that training is good, but it establishes a culture with the potential to succeed training. "L'Oréal did just that," she says, with the company's culture disseminating to its overseas operations. "Talking to my friends in this country I felt my then employer did more than most of theirs to allow us to fulfil our potential as well as uphold the quality of the company."

Chapman believes IIP can help companies to be more competitive and employees to be better skilled.

She says that IIP, contrary to many employers' expectations, is not about spending more on training programmes. Rather it is a mechanism for assessing whether or not a company's

training fits its business needs. Attaining the standard may require specialist help from consultants, for whom grants are available.

So far the standard has been taken up mainly by the "great and the good" including Boots the Chemist, the retailing to drugs group; Grand Metropolitan, the food and drinks group; and Land Rover, the four-wheel-drive subsidiary of British Aerospace's Rover Group. The task now is to disseminate it more widely.

"It is not enough to say it's good to train people," says Chapman. "You have to be able to demonstrate how it benefits the bottom line in a way that

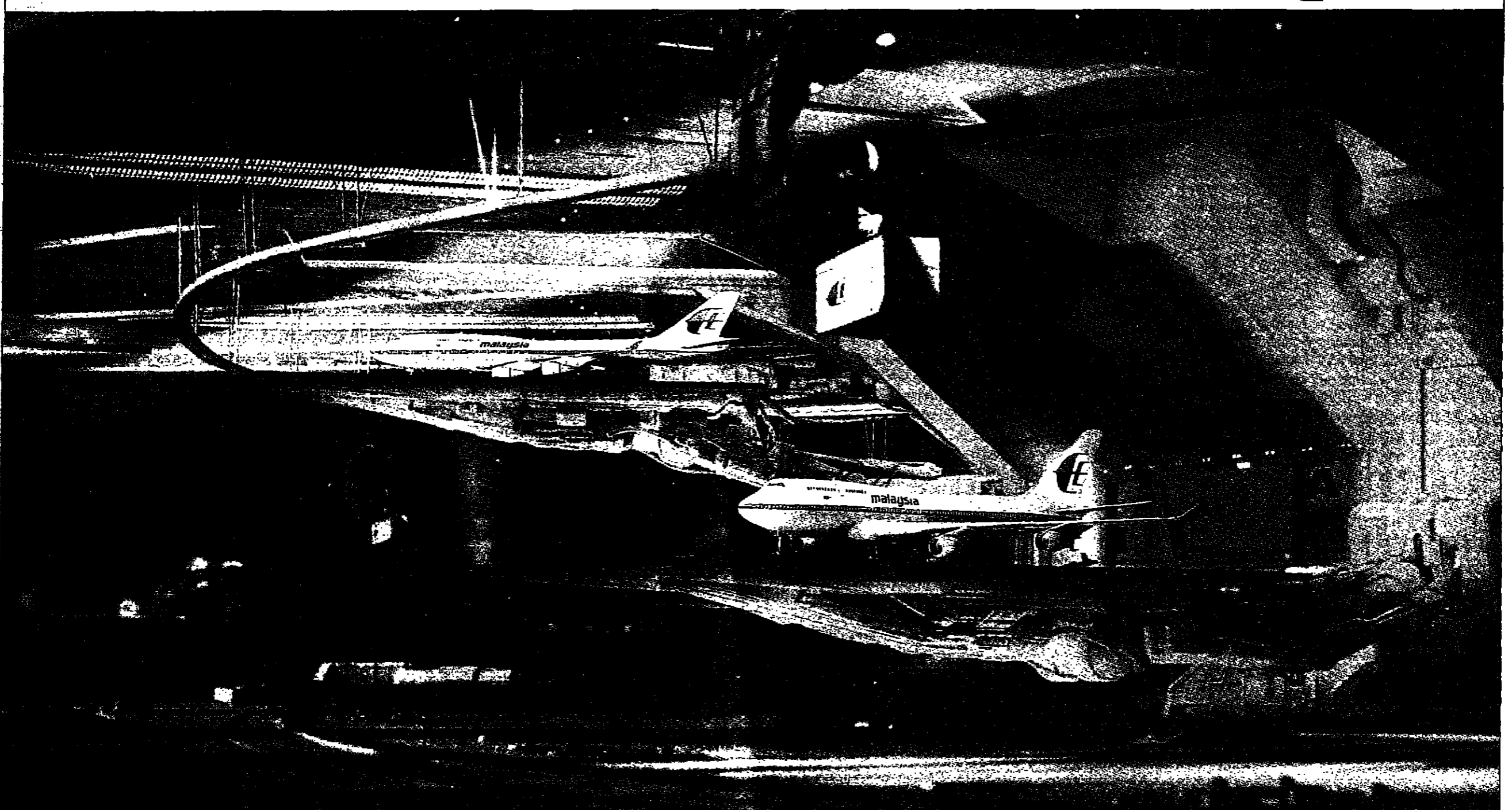


Mary Chapman: fit training to needs

businesses can measure." IIP, she says, can also influence the individual development of employees. At a division of Unilever, the management, while working on IIP, realised that it was not making the most of its female employees. An affirmative action programme has been introduced. Chapman says: "Worked with properly, the standard can help companies identify personnel matters such as these but it is then up to the company to decide whether it wants to do anything about it."

Big companies, she says, can use the standard as an audit tool, that is, to ask "are we as good as we think we are at linking our training to our business needs". Small companies can use it at a more fundamental level, which may result in new personnel and training practices.

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BUSINESS AND THE ENVIRONMENT

Daniel Green considers a report which bolsters the case against banning phosphate detergents

Errors in the name of ecology

Could two decades of environmental policy have been mistaken? Have the US, Germany, Switzerland and many other countries unnecessarily forced changes on their industries and consumers in the name of ecology? Yes, according to the Phosphate Report* published today by Landbank, an environmental consultancy.

The report is a life-cycle study which examines the environmental impact of two kinds of detergents, phosphate-based and zeolite-based. Such studies try to take into account every aspect of the production and use of a product from raw material extraction to waste disposal.

Phosphates have been blamed for high levels of nutrients in rivers and lakes that lead to the dominance of algae over other life forms.

Many countries have banned detergent phosphates as a result and encouraged a switch to zeolites.

But the report concludes that there is virtually no difference between the environmental effect of the two types of detergent, if all aspects of production and consumption are taken into account.

It is a conclusion that might have been expected, given that the report was sponsored by UK phosphate manufacturer Albright and Wilson, owned by the Tenneco industrial group of the US.

But the two authors insist that they have been independent and objective. Their credentials help: one is Bryn Jones, once director of lobby group Greenpeace, the other is Bob Wilson, formerly a senior lecturer in statistics.

They also claim that their report

breaks new ground in the controversial area of life-cycle analysis, a technique notorious for producing disagreements among experts.

They pin their hopes on the Delphi Technique to iron out these differences. This method requires a panel of experts to give their views by completing an anonymous questionnaire. The results are summarised and fed back to the panel.

The panel members are invited to reconsider their position, or give arguments about why they are right. These arguments are then distributed to the panel again. The process remains anonymous and can be repeated until a consensus is achieved or irreconcilable positions established.

For the Phosphate Report, the panel assessed the environmental impact of 39 products generated by the likes of phosphate mining, road



Phosphates versus non-phosphates: Two decades of 'green' policy could be wrong

transport of materials and electricity generation for manufacturing plants.

Each expert gave a score for the environmental impact of each pollutant generated during the life cycle of the two types of detergent. When the scores were added up, phosphate detergents scored 107

environmental impact points, and zeolite detergents 110 points. Jones gives the error as 10 per cent.

This alone should bolster the case against banning phosphates but the report is not finished yet. In its final section, the authors argue that it is much easier to take phosphates than zeolites out of waste water.

Sweden already strips phosphates out of waste water and has banned advertisements that claim that zeolites are greener.

There are signs of a rethink in Switzerland, where detergent phosphates were banned in 1986 and phosphate-stripping plants built to protect lakes. The report quotes Ulrich Zimmerman, head of water quality for the Zurich Water Authority, calling for the ban on detergent phosphates to be revoked on the grounds that it has failed to improve water quality.

The report concludes with several recommendations ranging from a call for zeolite detergent manufacturers to abandon eco-friendly labels to a suggestion that wind power be used to supplement electricity supplies at Albright and Wilson's phosphate plant on the Cumbrian coast.

Of at least as much interest to consumers is the finding that phosphates are better cleansers: almost 12 times as much zeolite detergent is needed to produce the same cleaning effect.

Swiss consumers have discovered this already. Their increased consumption of zeolite detergents, specialist stain removers and water softening machines may have been behind a rise in foaming at water treatment works, the report claims.

*The Phosphate Report, Landbank Environmental Research and Consulting, 6 Donaldson Road, London NW6 6NB, UK. Tel: 071 372 7122.

Left to regulate without reward

British companies are failing to capture the new international markets for environmental technology, says a report* which claims British industry is lagging well behind Germany, the world leader.

The report, conducted ahead of one of this spring's leading trade exhibitions for environmental technology, analyses responses from 300 British companies, which make up around a tenth of the industry.

The clearest finding is that environmental regulation is the driving force behind the market's growth. More than three-quarters of the respondents said UK legislation was the reason for their customers buying environmental technology, and 61 per cent gave European legislation as the main factor.

Ministers have been keen to emphasise that "greener" can mean "richer": that some people can make money from environmental regulation even though others will pay more. However, the report suggests that while the costs of regulation are borne by UK companies and consumers, much of the value of the market in environmental technology goes overseas.

The OECD and the US Environmental Protection Agency have both suggested that the world market for environmental products and services is currently worth \$200bn (£135bn). They differ on estimates for its value by the end of the decade: the OECD thinks \$300bn, and the EPA doubles that sum. But forecasters agree that the main growth will come from demand for waste management, air pollution control and water treatment technology.

German companies have captured 21 per cent of that world market, the survey estimates. In contrast, the "nascent" British industry is made up mainly of small companies, it says.

BM

*The British Environmental Technology Industry Survey January 1994, Environmental Policy Consultants. Tel: 071 372 7122.

Fading blueprint of a greener world

Bronwen Maddox reviews David Pearce's latest book as he scrutinises the UK's environmental performance

David Pearce cannot be faulted on his timing. The book that made his name, *Blueprint for a Green Economy*, was published at the height of popular "green" enthusiasm in 1989, when Pearce was adviser to Chris Patten, then UK environment secretary. His second, *Blueprint 2*, which tussled with global environmental threats, was published in 1991 in the run-up to the Rio Earth Summit.

Now *Blueprint 3*, which turns back to scrutinising the UK's environmental performance, arrives in the week in which the government publishes its strategy for "sustainable development" - the UK's considered response to Rio.

Pearce, now head of environmental economics at London University, has made an important contribution to the environmental debate in each of these books. He has argued steadily that values can - and should - be put on the environment in forming government policy. While that principle is anathema to those environmentalists who feel the environment is priceless, he should

be thanked for it.

Lack of such valuation leads to economic inefficiencies: people use too much of natural resources such as the capacity of the oceans or land to absorb pollution. The principle of valuation is also a good counterweight to the anti-liberal streak in the environmental movement: those campaigners who want to impose expensive conservation policies on the world without asking people whether they are happy to pay the price.

In one of his most detailed valuations, Pearce argues that the "social costs" of road use - noise, pollution, wear and tear on roads, congestion and accidents to

pedestrians - amounted to between £23bn and £26bn in 1991. That was twice the amount fetched by road taxes; if the motorist were to pay the full cost of using the roads, taxes would need to double.

He will also win gratitude from the packaging industry for pointing out that the piecemeal way in which the government is forming its waste management policy could be highly expensive for industry without yielding the desired environmental improvements.

So far so good, although he is the first to acknowledge that such valuations are tentative and incomplete, particularly where they try to quantify the health

effects of pollution. He also undermines some of his argument by adopting an academic's plaintive cry for theoretical perfection - he is distressed that "policy tends to evolve as a series of reactions to particular issues rather than as a considered response to an exercise in which priorities are ranked according to agreed criteria".

But the more serious weakness of the book is its attempt to use these valuation techniques in defining the course of "sustainable development" for the UK.

"Sustainable development" is a notoriously tricky concept which Pearce has grappled with in earlier

work. He has in the past suggested two definitions. "Strong" sustainability, according to Pearce, means maintaining a country's stock of natural resources, while "weak" sustainability means maintaining a country's total capital, including both natural and man-made assets.

But although *Blueprint 3* treats these definitions as solid ground, safely won, gaping holes remain in his theories. It remains very hard to say what the definitions mean in practice. For example, in building new roads, a country would have to weigh the benefits to motor users against the acres of meadow which would be

obliterated, to judge whether its overall capital - natural and man-made - was maintained. But how many butterflies and wildflowers are equivalent to how many miles of road?

That persistent problem in defining capital handicaps him in his judgments about whether Britain's policies are sustainable - probably not, he concludes.

It also makes it hard for him to develop one of the main parts of his argument: the proposition that if a country fails to value the environment properly, it is likely to be on an unsustainable path.

Of the three strands in this book - valuation, sustainability and criticism of government policy - only the last is new. He has carried over much of the first two themes - including their weaknesses - from previous books. Those who have followed the development of Pearce's theories over the past four years may well feel the blueprint is getting fainter.

**Blueprint 3 - Measuring Sustainable Development* by David Pearce. 224pp, £10.95, Earthscan Publications.

PEOPLE

JCB digs deeper in search for European victory

JCB is strengthening management of its European sales and service operation to raise its share of what the Staffordshire-based construction equipment producer has long viewed as its "home market".

Pierre Leboucher, formerly head of the company's French subsidiary, right, has been appointed to the new post of European director.

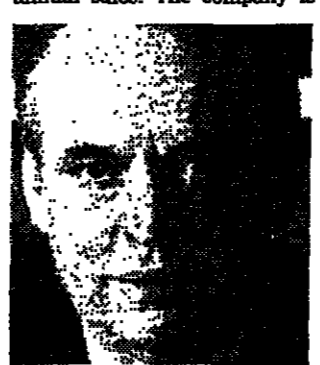
He will henceforth be responsible for sales and distribution development throughout Europe and for targeting the major markets of Germany, France, Italy and Spain.

Leboucher is being succeeded as managing director of JCB France by Françoise Rausch, far right, who now becomes one of the few women to reach such an elevated position in what is still a male-dominated industry.

Leboucher's new job has been created by John Patterson, a JCB main board director who last year was appointed

managing director for worldwide sales and service.

The European market is crucial for JCB, Europe, including the UK, accounts for 72 per cent of JCB's £350m-£400m annual sales. The company is



Europe's largest supplier of construction equipment in unit terms - although not in value. Patterson says JCB lifted its share of a declining European market from 9.5 per cent to 11.8

per cent last year, based on the eight main product types it competes in. But he wants to increase this to 15 per cent by 1995.

Leboucher's tasks will be to formulate how and where JCB expands on the continent, as the market comes out of recession. He will also be taking overall responsibility for, among other things, improving European logistics and implementing a revised product strategy based around three groups - heavy, main and compact lines.

Leboucher, who joined JCB in 1971, was one of the original team at the French subsidiary, which later became the model for other European operations. He sees increasing JCB sales in Germany as a top priority.

Rausch, meanwhile, is taking control of JCB's largest single export market, apart from that of the US.

JCB France had sales of FF400m last year but Rausch

who has been with JCB for 21 years - believes sales could increase this year, helped by new JCB products, as well as an overall market pick-up spurred on by public works funding and lower interest



rates. Rausch says that though the French construction equipment market has fallen by 50 per cent since 1989, it could rise by 5-10 per cent this year.

Pore over while still liquid.

FT Quarterly Review of Personal Finance.

The Financial Times Quarterly Review of Personal Finance will be published on Friday, January 28 and Saturday, January 29.

It will examine the performance of world equity and bond markets, consider some applications of offshore investment, and present league tables of the top performing unit and investment trusts.

In addition, an eight page survey section on Financing the Family will discuss domestic money matters, including home insurance, children's savings and paying for a wedding.

Essential reading, in fact, for anyone who needs to know what's cooking in the world of personal finance.

FT. Because business is never black and white.

Scapa group appoints successor to Kent

Harry Tuley, chairman of mini-conglomerate Scapa, is becoming non-executive chairman of Staveley Industries. He replaces Brian Kent, who is retiring next month at the age of 61, after 16 years on the board of the measuring and mechanical engineering company.

Kent had combined the roles of chairman and group managing director between 1987 and the autumn of 1992, when Roy Hitchens came in, from BOC, as chief executive. Hitchens says that Kent is stepping down because his other interests are taking up a lot of time. He becomes president of the Institution of Mechanical Engineers in May.

Staveley employed headhunters to find Tuley, a Scapa veteran of 25 years standing. "The

chemistry between the two of us is very good," reckons Hitchens, who, as an accountant, says he likes "the counterpoint" of Tuley being a trained engineer.

"It is not his company, but where he has operated - in America and continental Europe - that is of interest to me" says Hitchens.

■ Les Armstrong, formerly general manager of Dixons' and Currys' operations in Northern Ireland, has been appointed md at HAMPDEN GROUP.

■ Colin Thwaite, formerly deputy md, has been appointed md of Littlewoods Pools and a director of the LITTLEWOODS ORGANISATION on the retirement of Malcolm Davidson.

■ Donald Samardich, presi-

dent of Cadillac Rubber & Plastics, has been appointed to the parent board of AVON RUBBER.

■ Bill Fallagar is appointed head of marketing at SANDOZ PHARMA in Basle; he is succeeded as md of Sandoz Pharmaceuticals UK by Jacques Racioc, head of the Japanese company.

■ Frank Banks is appointed director of after-sales at NISSAN MOTOR (GB); he is succeeded as sales director by Andrew Green, formerly marketing director.

■ Calvin O'Connor has been appointed treasurer of COURT-AULDS TEXTILES as part of his current role of group financial controller.

■ Michael Helliings has been promoted to md of Haul Waste, part of SOUTH WEST WATER.

Shute recruits at Scottish Heritable

Roger Shute, former chairman of BM Group, has strengthened his hold on Scottish Heritable Trust, the struggling York-based mini-conglomerate in which he holds a 10 per cent stake.

He is handing over the chief executive's job to Brian Craig, 47, a property expert, and has also recruited Malcolm Mastin,

50, an old BM colleague, to be an executive director.

Scottish Heritable Trust is in talks with its bankers on the refinancing of its £24m debt; it has been selling off its industrial interests. The appointment of Craig, a consultant to Styles, Whitlock, chartered surveyors, is a further sign of transformation into a property

company. Craig was a founder of Brookmount and is managing director of Craig European, a private property company.

Roger Shute, who took over from Edward Denison as chairman earlier this month, will remain executive chairman. The company's shares were suspended at 5p last November.

New Dell Euro-man

Dell, the US personal computer maker which introduced direct marketing to the computer business, has named Martyn Ratcliffe, 32, its top man in Europe.

A vice-president of Dell Europe, he takes the place of Bruce Sinclair, injured while holidaying in the West Indies. Sinclair, acknowledged as the architect of Dell's European reorganisation, is in the UK's Stoke Mandeville hospital, with a broken back. His injury, although serious, should not prevent a good recovery, but it will take time.

Joel Kocher, Dell's president of worldwide marketing, paid tribute to Sinclair's professionalism, adding that he would return to Dell in a position commensurate with his experience and contribution.

Ratcliffe was president and chief operating officer with personal computer company Zeos International; his other past experience includes president and chief operating officer of Veech Computers, and posts with Nokia Mobile Phones.

Educated at Bath University and the City University Business School, Ratcliffe's first three months at Dell will be spent immersed in its European activities.

Television/Christopher Dunkley

Perils of the presentation game

Look for trends in television current affairs programmes early in 1994 and only one thing is really clear: numbers are going up. Much the same is true of all other programme categories, but current affairs may be the best place to identify other developments also occurring to a greater or lesser extent throughout the medium, but more easily detectable here than elsewhere. In style and presentation there are two trends, and they seem to be moving in opposite directions.

Of course in the centre there is still plenty of conventionally constructed work. In last week's *Assignment* on BBC2 Brian Barron in Hong Kong, investigating the approach to Britain's surrender of the territory in 1997, provided the sort of exhaustive report which the better current affairs series have always made. There cannot have been anybody of consequence that Barron did not interview. Three weeks ago, also on BBC2, there was an exemplary, structurally familiar, and highly enjoyable profile of the journalist and politician Bill Deedes in *Dear Bill*.

In last week's *Undercover Britain* series on Channel 4 Graham Hall contributed a report on the torture and killing of badgers which was enough to fill the most timid viewer with a lust for vengeance against the sadists who make their dogs drag out badgers by the nose from their underground sets. However, while the programme was vivid, deeply upsetting, and shot by one man using hidden camera equipment, it was put together in a familiar enough way. There was some reference to Hall's exploits, as there had to be, but he was not promoted as the programme's chief focus of interest, not even as much as Roger Cook is in his investi-

gative programmes. We were kept informed by a perfectly ordinary script delivered in voice-over.

However, increasing numbers of programmes do not conform to the old conventions. On the one hand, there are those which merely shovel material into the viewer's lap, abandoning the use not only of a presenter but even of a voice-over. On the whole such programmes are clearly not expected to be big ratings winners. On the other hand there are more and more soft, user-friendly programmes which obviously are meant to attract big audiences and in which a "personality" presenter is a vital part of the attraction,

underlying structure of the programme which is irritating, having been modelled, it seems, on *Challenge Anneka*. Instead of investigating King Alfred's stronghold at Athelney in the normal manner, the archaeologists are obliged to do it at the trot, in three days, in response to some sort of challenge from a (supposed) letter writer. The archaeology is in perpetual danger of being smothered under the game element.

But even more annoying than the "Never mind the programme, look at me" style is the opposite extreme where the producers pretend that the material is reaching the viewer untouched by human hand;

lighting to give Karloff-like dramatisation to the lavatory sequences. What you might call manipulator-on-the-wall television.

Happily this season has also brought *Further Abroad*, a BBC2 series on Fridays, presented by Jonathan Meades, which is impossible to categorise. The first three of the five programmes have dealt with high buildings and consequent vertigo, brewing and pubs, and golf courses. Still to come are pigs and Belgium. Some might say that Meades' chief concern is architecture, others that it is the English class system, and yet others that it is to champion the old over the new. For comparison some of Lucinda

There are few things more suspect in the eyes of some English viewers than cleverness. "He's too clever by half" they say, and no doubt loathe this series. Yet although Meades is sometimes flippant and occasionally deliberately absurd he has serious points to make, whether about the motives for putting up tall buildings, the social pretensions of some suburban golfers, or the odd contrast between the high-tech surroundings of the places where beer is brewed and the contrived merie Englands atmosphere of the places where it is sold. We tend to believe that, like effective medicine, "serious" programmes ought to be thoroughly unpleasant to ingest, so the splendidly entertaining nature of this series may count against it. But if there is any justice it will win awards.

It is inconceivable that the series should inspire enough imitations to lead to a sea change in current affairs television generally because it depends wholly upon Meades' idiosyncratic personality. However, it does prove that outstanding programmes can be created which depend neither on self-centred celebrity presentation, nor on the scriptless fly-on-the-wall formula.



Modelled on *Challenge Anneka*? Tony Robinson, best known as Baldrick, now presents Channel 4's archaeology series 'Time Team' at the trot

Even more annoying than the 'never mind the programme, look at me' style is the opposite extreme, where the producers pretend material is untouched by human hand

sometimes the most important part, as with BBC1's Thursday night series *Jonathan Ross Presents* and possibly even *Michael Winner's True Crimes* on ITV. A particularly striking instance is *The Bigger Picture* on BBC2 in which the presenter, comedian Billy Connolly, proves considerably more interesting than the subject matter - Scottish art.

Channel 4's archaeology series, *Time Team*, looked at first as though it might be another example since the presenter, for no clear reason, is Tony Robinson, best known as Baldrick, the idiot with a cunning plan in the *Blackadder* series. In *Time Team*, sounding like an enthusiastic primary school teacher, Robinson turns out to be a rather good presenter; moreover the computer graphics used to superimpose a Roman fort, say, on a picture of the countryside as it is today, work very well. It is the

quite unmediated. A prime example was a recent edition of *40 Minutes* called "Caroline's Story" which purported to reveal, solely through her own mouth, the history of a woman suffering from anorexia and bulimia.

The difficulty with this approach is that the viewer has no way of knowing how much credence to give to the subject: was Caroline's account of childhood abuse the gospel truth or a classic case of False Memory Syndrome? How should we know, the producer shirked his journalistic responsibility to investigate and explain and left us to guess for ourselves. Worse, he had shot Caroline's neurotic activities - bolting food and vomiting it down the lavatory - in a way that made Polanski's *Repulsion* look like *Bambi*: huge closeups of goggling lips accompanied by amplified slurping effects, and then horror-movie back-

Lambton's programmes might come to mind, though you could be nearer the mark with John Betjeman's poetry and even *The Sloane Ranger Handbook*.

The programmes are wonderfully funny, first because Meades is witty. "Marmite, a German invention, a French name, an English institution. But that's not so odd really, many of our institutions are imports: think of the royal family, think of vivaldo, think of Rottweilers". Second because he takes trouble with his scripts, which demand that you listen: "This utilitarian landscape is golf's answer to, and unfortunate apeing of, agri-industrial prairie. It refers only to itself".

Third, Meades and his producers, David Turnbull and Russell England, have set out deliberately to undermine and ridicule some of the supposed rules of television presenta-

Mime/Alastair Macaulay

Heavyweight 'Moose'

I love mime - but when a lot of my friends say "I hate mime," I reply "I know what you mean." To them, "mime" means butch and bright-eyed eager beavers, with a mental age of about 14, hamming away like crazy, nudging the audience to understand the gist of their every point, making every point not once but repeatedly, and labouring to "say" things in movement that could be said far quicker in words. Alas, The Right Size, a group of three men, fits right bang into that category in its current show, *Moose*.

This production tells the farcical-tragic-sentimental-comic tale of two ballooning brothers who manage to maroon themselves in the wintry areas of the Arctic. The sweetest thing about the show is in fact the story it tells - a story that also involves an Anglophone loner into whose one-room hut these brothers arrive; the ludicrous efforts they make to communicate with him until they realise that he speaks their language anyway; the stupid games they play with him (over a dreadfully meagre meal and a stupendously lethal drink); the barriers he puts up to keep them out of his inner

life; and his real need for company.

All of which is often touching, and could have made a vintage silent movie. The best joke is a repeated joke about mime: whenever these guys try sign language, they misunderstand each other totally. But what stops *Moose* from becoming wonderful, or even good, is the heavyweight cuteness with which it is performed. As so often with (second-rate) mime, the performers do too little to make their onstage world real, and keep on selling everything out so keenly to their audience.

The quota of violence is high, the degree of virtuoso physical skill moderate, the quota of revealing human detail low, the quota of coherent subtlety nearly non-existent. The story, I repeat, is endearing. Yet anyone can imagine how some of the great actor-clowns of the silent-movie era could have turned *Moose* into a work of art, whereas here it is merely a heavy-handed romp.

The Right Size performs *Moose* at the Purcell Room tonight. The London Mime Festival continues, in various venues, until Monday January 31



A delayed debut: Denyce Graves, a natural as Carmen, quietly brooding and tempting, with a kittenish touch

Carmen steals the show

Denyce Graves was ill for Friday's Royal Opera *Carmen* revival writes Max Loppert. This was a big disappointment: since the charms of the young American mezzo-soprano and the special qualities of her gypsy heroine had already been loudly hymned in several of the world's main operatic cities, her London debut was eagerly awaited. In her absence, the house flew in an opening-night replacement with fine qualities of her own: for her appearance alone the occasion proved not a waste of time.

Magali Damonte, Marseilles-born, also new to London, is only the second francophone performer of *Carmen* in the postwar history of Covent Garden (the first, Lyne Dourian, also "jumped in" as a substitute, on a single evening during the 1966-67 season). In this opera the shock of hearing sung and spoken words delivered with clarity and bite, and with the teasing, throwaway inflections that only French singers seem to have, is always a savoury one. Miss Damonte's stock of these brought happy rewards in the tavern scene, and the daring flameness of her final rejections of José added perceptibly to their shock content.

But there is more to this highly attractive artist than native accent. The figure is slim, the manner agile, the voice not large but warm, fresh and quick-speaking, with a dusky texture in mid-range that lent a personal tang to many of Bizet's key phrases.

Nervousness was perceptible, and excusable, in most of Act 1; thereafter, although the rampant banality of the 1991 Nuria Espert production proves no stimulus to any sort of inventiveness, its very mediocrity meant that few surprises were sprung on a late arrival like Miss Damonte.

Certainly she has earned herself a return invitation. The other main principals are capable, although the dead hand of the production team tells more obviously in their vocal and physical actions: Neil Shicoff a

man. Reading the gypsy's cards had presumably warned her that she would face a different Don José from her stand-in and that the two of them would have to inject any life that there was to be in the performance.

As much of Europe and the US have already discovered, Denyce Graves is a natural as Carmen. Quietly brooding, tempting, she plays the role with a kittenish touch, teasing the soldiers and giving Don José a surprise by springing upon him from behind. Her dark mezzo flashes various colours, including a warning red in the chest register when her temper is roused. As she looks and sounds a Carmen, she judges rightly that she has no need to work overtime to put the character across.

Our critics watch Magali Damonte and Denyce Graves overcome a dead-handed production

serious, passionate José too frequently reliant on all-out forcefulness, Barseg Turanyan an energetic, unattractive Escamillo, Leonina Vaduva an appealing but too tremulous Micaëla.

To add to the built-in handicaps of this hopeless, irredeemable *Carmen* staging, the revival has thrown up a new one: that of conductor. Of all the operas Jeffrey Tate has led at Covent Garden so far, *Carmen* an opera which thrives on Gallic lightness, snappiness and zest of handling is surely the one to which his musical gifts are least aptly suited. By Monday night the promised Carmen had arrived, writes Richard Fair-

Her José, the tenor Richard Margison, is not so lucky: he is physically on the stiff side and his voice, so clean and bright in Italian opera, sounds too little sensuous and flexible in French. He does work hard, especially at getting sensitivity into his singing, and all his intentions are going in the right direction, even if the last ounce of passion is missing. Their final scene together belongs to Graves, who underplays to a daring degree, always still, calm, the emotion held within. Her Carmen somehow belongs in a different kind of production.

Royal Opera House: in repertoire until February 2

INTERNATIONAL ARTS GUIDE

BONN

Oper Tonight, Sun: Yuri Lyubimov's production of *Jenufa*. Tomorrow: Dennis Russell Davies conducts Gian-Carlo del Monaco's new production of *Les Contes d'Hoffmann*, with Marcus Haddock in title role. Fri: Lortzing's *Der Wildschütz*. Sat: Volodya Panov's production of Prokofiev's ballet *Cinderella*. Mon: Barbara Hendricks song recital (0228-775667)

BORDEAUX

The new production of Salome, which had been scheduled to open at Palais des Sports this coming Sun, has been cancelled at short notice because of municipal budgetary restrictions. The Strauss concert next Wed and Thurs will go ahead as planned, as will the staging of *Die Zauberflöte* at the Grand Théâtre from Feb 13 to 23 (5648 5854)

COLOGNE

Opernhaus The main event this

week is the first night on Sat of Harry Kupfer's new production of Shostakovich's *The Nose* conducted by James Conlon, repeated Feb 2, 5, 9, 11 and 18 (0221-221 8400) Philharmonie Hans Vonk conducts Cologne Radio Symphony Orchestra in works by Stravinsky and Haydn on Fri and Sat. There are also concerts by Rhine Chamber Orchestra tonight and Canadian Brass on Sun. Feb 1: André Watts piano recital. Feb 8, 7: Murray Perahia plays Beethoven. Feb 18: Simon Rattle and Orchestra of Age of Enlightenment. Feb 23: José Carreras (0221-2801)

COPENHAGEN

Royal Theatre Tonight: Nielsen's opera *Maskarade*. Tomorrow, Sun afternoon: Helgi Tomasson's production of *Sleeping Beauty*. Fri: Mikael Melbye's new production of *Così fan tutte*. Sat, next Wed: Tosca (tel 3314 1002 fax 3312 3692)

DRESDEN

Semperoper Tonight, Sun: new production of Prokofiev's ballet *Romeo and Juliet*, choreographed by Stephan Thoss. Tomorrow: Virtuosi Saxoniae play music by Zelenka, Graun and Mozart. Fri: The Bartered Bride. Sat, next Wed and Sat: Elektra with Gwyneth Jones. Mon: Dresden Staatskapelle chamber music evening (0351-184 2323)

FRANKFURT

Alte Oper Tonight: Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by

Sandström, Berg and Bartok, with violin soloist Gidon Kremer. Fri: Heinz Holliger and friends play chamber music by Carter and Holliger. Sat: Christy Moore, Irish folk singer. Sun: Thomas Hampson song recital. Mon: Anatol Ugorski piano recital (069-134 0400) Jahrhunderthalle Hoechst Tomorrow: Harlem Gospel Singers. Fri: Dionne Warwick. Sat: Leonard Slatkin conducts Bamberg Symphony Orchestra in works by Haydn, Barber and Tchaikovsky, with soprano soloist Linda Hoenfeld (069-360 1240) Oper Tomorrow: William Forsythe's ballet *The Loss of Small Detail*. Fri: Nikolaus Lehnhoff's production of *Lohengrin*. Sat: Die Fledermaus. Sat (Schauspielhaus): Forsythe's ballet *Alien Action*. Sun: Il barbiere di Siviglia (069-236061)

GOTHENBURG

Konserthuset Tomorrow, Fri: Göran Nilson conducts Gothenburg Symphony Orchestra in works by Piston, Gershwin and Bernstein, with piano soloist Bengt Forsberg (031-167000)

HAMBURG

Staatsoper Tonight, Fri: Johannes Schaal's production of *Entführung*. Tomorrow, next Mon, Tues, Wed: new Ravel ballet trilogy, choreography by John Neumeier. Sat: Don Pasquale. Sun: Tannhäuser with Wolfgang Schmidt in title role (040-351721) Musiktheater Tomorrow: Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra, with violin soloist Gidon Kremer

(040-354414)

LEIPZIG

Gewandhaus Tomorrow, Fri: Lothar Zagrosek conducts Gewandhaus Orchestra in works by Brahms, Bartok, Berg and Haydn, with piano soloist Annemose Schmidt and soprano Inga Nielsen. Sun: Robert Schumann Quartet plays string quartets by Haydn, Dvorak and Mendelssohn. Next Tues: Fabio Luisi conducts MDR Symphony Orchestra in Hindemith, Korngold and Strauss, with violin soloist Ulf Hoelsche (0331-713 2280)

LILLE

Nouveau Siècle Fri, Sat: Yehudi Menuhin conducts Orchestra National de Lille and Chorus in *Bach's B minor Mass*. Next Tues, Wed: Menuhin conducts orchestral works by Pärt, Schubert and Beethoven (0221 8240)

LYON

Auditorium Tomorrow, Sat: Eliahu Inbal conducts Orchestre National de Lyon in Mahler's Seventh Symphony (7860 3713) Opéra Fri: Kent Nagano conducts an orchestral concert with soprano soloist Margaret Price. Feb 4-13: Louis Elie's arrangement of *Les Contes d'Hoffmann*. Feb 8: Thomas Hampson (tel 7200 4545 fax 7200 4546)

MÜNICH

Staatsoper Tonight, Sat: John Neumeier's ballet *A Midsummer Night's Dream*. Tomorrow: Cav and

Pag, with Agnes Baltsa, Piero Capoccioli and Vladimir Atlantov. Sun, next Wed: Don Giovanni with Alan Titus and Jane Eaglen. Next Mon: Peter Schneider conducts first night of Tom Cairns' new production of *Un ballo in maschera*, with Julia Varady, Dennis O'Neill and Wolfgang Brendel (next performances Feb 3, 6, 9, 12 and 16). Next Tues: Peter Wright's production of *Giselle* (089-221316) Gastspiel Tonight: Enoch zu Guttenberg conducts Munich Bach Collegium in Handel's *Messiah*. Sat, Mon: Günter Wand conducts Munich Philharmonic Orchestra in Beethoven's First and Third Symphonies (089-4809 8614) Kammermusik A new production of Shakespeare's *The Tempest* opens on Fri, directed by Dieter Korn and designed by Jürgen Rose (089-2372 1326)

OSLO

Konserthuset Tonight: Grant Llewellyn conducts Stavanger Symphony Orchestra. Tomorrow, Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in symphonies by Brahms and Shostakovich. Feb 11: Sinopoli conducts Mahler (2283 3200)

SAINT-ETIENNE

Grand Théâtre Tonight, Fri, Sun afternoon: Patrick Fourniller conducts Antonio Salva's new production of Gounod's *Roméo et Juliette* (7725 3518)

STOCKHOLM

Royal Opera A new production

of *Lohengrin* opens on Fri, staged by Götz Friedrich and conducted by Siegfried Köhler, with Gösta Winbergh in the title role. Repertory also includes Cav and Pag, *Così fan tutte* and *Elektra* (tickets 08-248240 information 08-203515) Konserthuset Tonight: Niklas Willen conducts Royal Stockholm Philharmonic Orchestra in works by Beethoven, CPE Bach and Pärt (repeated on Sat afternoon in Berwaldhallen). Next Wed: Alban Berg Quartet. Feb 3, 5: concert performances of Die Frau ohne Schatten (tickets 08-102110 information 08-212520)

STRASBOURG

Théâtre Municipal Sylvie Brunet sings the title role in a new Opéra du Rhin production of *Iphigénie en Tauride* tonight and Fri, repeated in Colmar on Feb 3 and Mulhouse on Feb 6 (8875 4823)

STUTTGART

Staatstheater Tonight: Stuttgart Ballet in Marcia Haydée's production of *Giselle*. Tomorrow, Sun: Elektra with Gabriela Schnaut and Eva Randova. Fri, next Mon: Ingo Metzner conducts Johannes Schaal's new production of *Rigoletto*, with Wolfgang Schöna, Gabriel Sadé and Catriona Smith. Sat: first night of new ballet mixed bill, choreographies by Azari Plissetski, Roberto de Oliveira and Petipa. Feb 2-7: Stuttgart Ballet presents the Rogers and Hart musical *On Your Toes* (0711-221795)

ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

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Ian Davidson

Least bad option

There is no end in sight to the turmoil in western policy on Bosnia



You may be perplexed by western policy on the war in Bosnia, and no wonder. Fortunately, I can describe it in one word: turmoil. I have it on impeccable authority in Whitehall: "We are all in turmoil."

They are in turmoil because the Geneva peace negotiations have collapsed, which seems to imply a fight to the finish by the warring parties and a death blow to the peace process offered by the west. And if the peace process really is dead, the west will have to make a fundamental reappraisal of policy. That is why there is turmoil: governments are casting around for something else to do, and so far they have found nothing.

There are at least three symptoms of disarray. First, there is the stress affecting UN forces on the ground: one Belgian general has withdrawn exhausted and one French general has been sacked for criticising the UN leadership.

Partly as a result, we have heard sporadic noises in London and Paris, mainly from the defence ministries, that the two governments may decide to bring their troops home. Why expose their soldiers to the dangers of "peacekeeping" if the three communities in Bosnia refuse to make peace?

Third, and quite contradictorily, the French government is calling for a more forceful western strategy to impose peace on the ground, which would include US military involvement. The US has immediately stamped on the idea: it will not get involved in the war in Bosnia. The French say they will soon put forward a new Bosnia plan anyway.

It is hard to imagine what the French can come up with. But neither Britain nor France is likely to withdraw its troops unilaterally. A top French official tells me: "There is simply no question of just pulling out French troops like that." A unilateral withdrawal of British troops looks equally unlikely: if there is a change in UK policy, it will be co-ordinated with other western countries.

In fact, western governments, starting with Britain and France, may yet conclude that their least bad option is to

stick with their present Bosnia policy. It is deeply unsatisfactory from many points of view: peacekeeping is not bringing peace; the humanitarian aid operation is being largely frustrated; and the magic circle comprising the UN, the United Nations Protection Force (Unprofor) and Nato is riddled with double-speak and ambivalence.

But the present policy is what western governments were left with after they found all the other options looked worse. When Whitehall completes its current review, it may come to the same conclusion as before: the fact that the war situation has got worse does not mean that new and better peace options have suddenly become available.

One argument which may slow down the impetus for the withdrawal of troops is that it could precipitate other actions which could be more dangerous than anything we now face. At one time, for example, the Americans advocated an actively pro-Muslim policy, on the grounds that the Muslims were the victims in an unequal war and deserved a helping hand. They encapsulated their proposal in the catchy little slogan "lift-and-strike": lift the arms embargo on the Muslims and bomb the Serbs.

The US proposal was resisted by Britain and France, partly on the grounds that air strikes would be totally incompatible with UN peacekeeping and humanitarian aid, and would force them to withdraw their troops. But if Britain and France were to withdraw their troops quite independently, then that part of the argument against "lift-and-strike" would disappear.

In fact, there are other, stronger arguments against

"lift-and-strike" - tactical, strategic and political. It is easy to empathise with moral indignation at the barbarity of the Serbs' war of conquest and genocide. But indignation provides no confidence that a partial, indirect, arm's-length intervention by the west on behalf of the Muslims would make us feel better, let alone produce a more satisfactory result on the ground.

Let us suppose that such an indirect intervention were to help the Muslim side in the war. Do we think we could nicely calculate, in advance or afterwards, just how much help they should have, or prescribe just how much land they should recapture in the name of justice? Or do we just want a fairer war? This new policy could not be expressed in a UN resolution, as the Russians would veto it. So would it merely be executed by a posse of enthusiastic governments, regardless of the protests of other states?

The only certain result of the west helping to arm the Muslims is that Russia and other Slav states would step up their help to the Serbs. The war in Bosnia would then become a much bigger war, and not merely would we have no guarantee that the Muslims would come off better, we would find ourselves embroiled in an open proxy war against the Russians.

According to the conventional wisdom, ethnic war on the Yugoslav pattern is likely to be the main threat to peace and stability in Europe in the years ahead. The conventional wisdom is surely wrong. If there were to be a serious threat to western Europe, it would most likely come from Russian attempts to recapture their former empire in eastern Europe; Russian nationalists are already talking threateningly about the Baltic countries.

The west has refused to intervene directly in Yugoslavia in terms that might conceivably have curbed the war. It could now respond to the breakdown in Geneva simply by withdrawing all UN troops. That would be brutal and heartless, but rational. But if we were now deliberately to pursue a policy designed to maximise the scale of the war as well as the risks of open conflict with Russia, without any compensating advantage, we should be guilty of hare-brained folly.

The ancient *palais de justice* in Liège stands on the brink of a vast hole, excavated years ago as part of a plan to renovate the Belgian city's central square. But while the city authorities argue about what to do with the hole, Mrs Veronique Ancia, one of the *palais*'s investigating magistrates, is opening up a second pit with an inquiry which threatens to undermine one of the partners in Belgium's fragile coalition government.

Mrs Ancia is digging into allegations of bribery and corruption in Belgium's French-speaking Socialist party, the PS. Liège, in the francophone region of Wallonia, is getting used to such probes: in 1992, for example, the city's image was tarnished when the then mayor of the Socialist stronghold was given a 28-month suspended prison sentence for accepting bribes to award parking meter and property contracts to certain companies.

But what sets Mrs Ancia's inquiry apart from more humdrum allegations of Belgian political corruption is the fact that it was triggered by a murder, and that it could destabilise the country's fragile four-party government, made up of Christian Democrats and Socialists from both sides of Belgium's French-Dutch language divide.

On Friday, her inquiry claimed its first ministerial victims. Mr Guy Coëme quit as Belgium's deputy prime minister, quickly followed by Mr Guy Spitaels, respected head of the regional government of Wallonia, and Mr Guy Mathot, Wallonia's interior minister.

Mrs Ancia wants to interview the trio - inevitably dubbed "the three Guys" - about claims that bribes were promised to the PS in return for awarding a BFRbn helicopter contract to Agusta, the Italian aircraft manufacturer, in 1988. The Belgian parliament has already agreed to the partial lifting of Mr Spitaels' and Mr Mathot's immunity from prosecution. Mr Coëme yesterday asked a separate parliamentary committee to clear the way for him to defend his position in the Belgian supreme court.

So is the Agusta affair just an easily contained internal ruction affecting one coalition partner, or a potential earth-

quake that could bring down the government?

What is certain is that extensive leaks of Mrs Ancia's report to parliament have provoked a rare passion in the Belgian media and exposed divisions in the PS which will be difficult to patch over. De Standaard, the heavyweight Flemish daily, summed up the crisis on Monday with a cartoon of a crumbling PS headquarters with a large, helicopter-shaped hole punched in one supporting wall.

Leading francophone Socialists admit that the main reason the affair is provoking such fervour is that Mrs Ancia's inquiry into the Agusta affair was triggered by her parallel investigation into the 1991 murder of Mr André Cools, former PS leader and prominent Liège Socialist. He was gunned down in a Liège street as he left his mistress's apartment. But although rumour is rife, nobody has yet proved a connection between the Agusta bribery allegations and the killing.

However, a deep desire to seek a solution to the Cools assassination has prompted some prominent members of the PS and friends of the dead man to testify against their colleagues in the Agusta affair. As Mr Philippe Busquin, leader of the PS, said at the weekend: "The basis of the problem (in the PS) is that behind all this there is a death - and not just

anybody's death - the death of a former PS president. We have to know who was behind the assassination of André Cools, and the mixing of this problem... with other problems has created an emotive and passionate atmosphere which is quite understandable."

Such emotion is not calculated to assist Belgium's coalition government, which has spent most of its 22-month life tiptoeing along the edge of crisis. So far, Mr Jean-Luc Dehaene, the enigmatic Flemish Christian Democrat prime minister, has managed to sidestep other pitfalls. Party that is because the government parties are afraid that opposition parties - particularly the right-of-centre liberals - might bounce them out of office in an early general election. Mr Dehaene has also profited from that fear, which has enabled him to push through difficult measures such as constitutional reform and budget cuts.

However, before Friday's clutch of resignations, the coalition was beginning to look queasy. In particular, the oppo-

sition was pressing home its criticism of the government, which is still trying to implement unpopular austerity measures and cut the country's budget deficit.

Then last Wednesday, MPs from the Flemish coalition parties prevented Mr Dehaene from blocking three opposition parliamentary motions calling for the resignation of Mr Coëme. It was a clear signal that the deputy prime minister, and his colleagues in the regional government, would have to go, or risk opening up the old Flemish-Wallonian political divide which has brought down previous coalitions.

According to observers, the ministers' departure came just at the right moment, as international investors in Belgian bonds and currency began to question the government's chances of survival. Mr Peter Praet, economist at Générale de Banque, Belgium's biggest bank, says that even after weeks proclaiming their innocence, the trio finally realised they had a "political responsibility" to resign.

The decision appears temporarily to have defused the political tension. At the weekend, the coalition parties reaffirmed their commitment to continue in government, in spite of the large-scale national and regional ministerial reshuffle.

Riddle of the three Guys

Belgium's French-speaking Socialists face allegations of corruption, writes Andrew Hill



Out: Guy Spitaels (above) and Guy Coëme (right), Belgium's deputy prime minister, have quit along with Guy Mathot



provoked by the turmoil within the PS. The standard PS line on the affair has also become clear: from the grassroots upwards, francophone Socialist officials are echoing their president's call for "clarity and respect for the judicial procedure". Apart from that, it is business as usual.

However, with European elections due in June and local ones in October, the opposition is not going to let the matter drop. The Flemish liberals, in particular, want to push through plans for a "clean hands" bill which would, they say, curb corruption, clean up party financing and underpin the independence of public servants, who are said to be dependent too much on political patronage.

Plans for legislation were already laid, say the liberals, before the political row over Agusta, but several government politicians have accused them of profiting from the occasion, in particular by organising a fact-finding trip to Italy last week for two deputies to examine the country's anti-corruption measures.

Critics of the mission believe parallels between Italian and Belgian corruption scandals have been exaggerated. But Mr Hugo Coville, one of the MPs on last week's trip, claims there are similarities. "The problem is, if you have a weak authority, a weak administration, then groups like the Mafia and others are going to try and capture it. I think in some parts of this country that has been done," he says.

All sides agree on one point: that Mrs Ancia is the only person who has a chance of shedding light on what really lay behind the award of the Agusta contract and the murder of Mr André Cools. And although she has herself been accused of political motivation (she is a Christian Democrat) and the leaked details of her dossier have been criticised for their lack of substance, she alone has the tenacity to pursue the inquiry until the Agusta and Cools affairs are finally solved.

Until she completes that task, the PS and, by extension, the government will have to face up to more buffeting from the opposition over the Agusta affair. But it seems unlikely that any of the government parties will want to force an election. As the prime minister pointed out in a radio interview on Monday, no Belgian party has ever gained by quitting a coalition prematurely.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Surveys reflect different concerns

From Mr Richard Brown.

Sir, There has been speculation over the perceived discrepancy between the recent British Chambers of Commerce and Confederation of British Industry surveys ("CBI survey affirms steady economic recovery", January 25). When comparing like with like there is little difference between the two. The CBI survey shows the recovery remains on track, and that in manufacturing there has been an improved performance, particularly in terms of exports and confidence.

Chambers' concerns lie with the slowdown in the rate of growth in the service sector, including small firms - the engine room of the economy - an area not as widely covered by the CBI. It is understandable that our different constituencies provide a different perspective on the state of the economy. Each has its value to business and policymakers.

Richard Brown, deputy managing director, Association of British Chambers of Commerce, 9 Telford Street, London SW1

Recovery is just as it should be

From Mr Brian Warnes.

Sir, Your article "A clear case of confusion" (January 22) spoke of conflicting recovery signals. Evidence from the (industrial) cliff face is that order books are building up slowly and steadily - which is just what is wanted. Hence the cautious, but sustained, rise in gross national product, evident now for more than a year.

Retail sales are another matter. It is probably desirable they should not move ahead too fast, to avoid sucking in imports on what might be termed "froth" spending. There need be no conflict here. The underlying heartbeat of the economy appears sound.

Brian Warnes, managing director, Business Dynamics, 13 Blackheath Village, London SE3 9LA

No problem with UK aerospace

From Mr Alan Bonderud.

Sir, On December 14 you printed a letter from Dr Michael Cross who, after three years' research, concluded that the UK "has a long way to go if the UK manufacturing base is to become world class". His study could not have focused on the UK's aerospace industry, about which we at Lockheed hold a different view.

You might like to know that Lockheed is undertaking a major commercial venture to modernise the C-130 Hercules aircraft and we have conducted a worldwide competition to identify suppliers: 1) with the most modern technologies; 2) meeting or exceeding estab-

lished quality standards; 3) capable of meeting stringent delivery schedules; 4) offering the best prices; and 5) willing to invest their own money in the programme.

As of today, 18 UK companies have won positions on the Hercules team - far more than any other nation outside the US, representing exports for the UK economy which over the next 10 years alone will amount to well above £1.3bn. Moreover, we should be quite clear that their contribution in terms of technological expertise and competitiveness has been a significant factor in ensuring we are able to offer a more affordable, reliable and

capable aircraft than any prior model in the 40-year history of the Lockheed Hercules aircraft line.

I appreciate the point Dr Cross was trying to make with regard to the overall UK manufacturing picture. However, from our perspective, and based not on academic analysis but on hard commercial experience, UK aerospace companies with which we are now partners hold verifiable world-class credentials.

Alan Bonderud, regional manager UK, Lockheed Aeronautical Systems, Marietta, Georgia 30063-0236, US

Conglomerates have their place

From Prof David J Collis.

Sir, A view from this side of the Atlantic on the validity of conglomerates as a viable corporate strategy ("Diversity and die", January 4). The fact is that the most successful US corporations in the 1980s were conglomerates. It was just that they were not called conglomerates - they were called "leveraged buy-out" (LBO) partnerships. Consider KKR: from nothing, to more than \$40bn in revenues and nearly 400,000 employees in 20 years, with returns to investors of up to 50

per cent a year. Not a bad performance.

The truth is there is no one right sort of corporate strategy. Conglomerates are neither universally good nor bad. A good corporate strategy is one that leverages a unique set of resources - physical assets or intangible assets such as brand name or consumer marketing skills - into those businesses where they contribute to competitive advantage. The valuable resource conglomerates possess is usually a tight financial control system. This can

create value for market-leading companies in mature, low-technology industries by creating managerial incentives for efficiency. Conglomeration is, and will continue to be, a viable corporate strategy in a limited set of industries, and for businesses with a particular market position.

David J Collis, associate professor, Graduate School of Business Administration, Harvard University, Boston, Massachusetts 02163, US

Pressures different in a small company

From Dr Stephen Castell.

Sir, Mr Grant-Wilson (Letters, January 22), commenting on Peter Bonfield's Personal View (January 19), is, I think, a little out with his statement that "very few successful chief executives in business operate with more than 10 direct reports". The vast bulk of senior executives in business are, of course, running small businesses, not uncommonly large ones like Mr Bonfield's Fujitsu subsidiary, ICL.

The great majority of these are owner-proprietors, sole traders or lone directors of their own limited companies.

With varying degrees of equanimity, such senior executives operate with many more than 10 "direct reports": sales prospect contacts, customers, bank managers, VAT inspectors, trading standards officers,

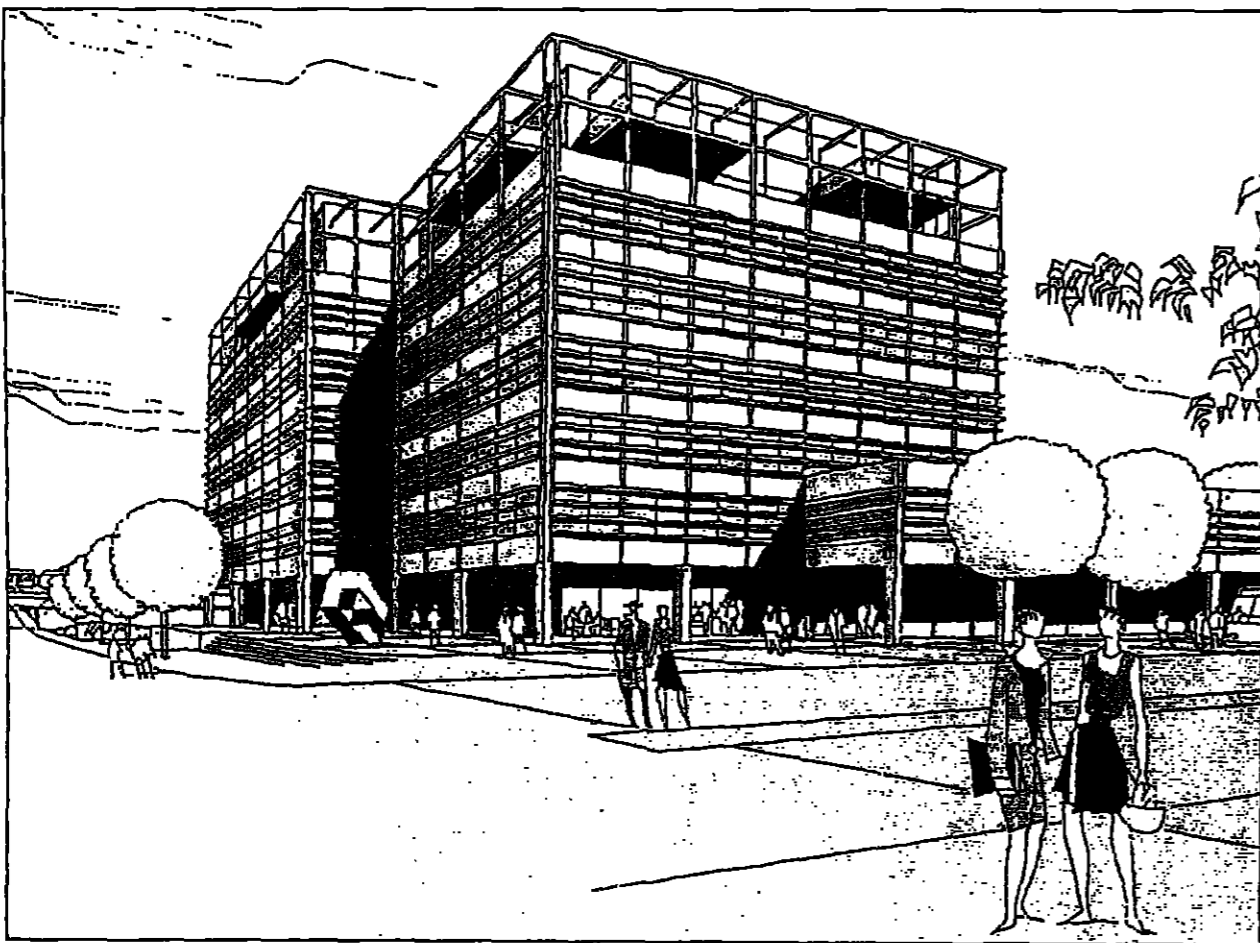
solicitors, accountants, direct employees, subcontractors, taxmen, customer accounts departments (chasing payments in), creditors (postponing payments out), suppliers (chasing delivery), advertising, office equipment/supplies, computer and telecoms salesmen, "red tape" government departments, journalists, etc. I estimate this to be at least 60 different "directs" to/from whom the small business executive must "report" in any week.

If the FT were to run more "If I were a government minister..." Personal Views, it might be a good idea to ask those running small businesses to contribute, rather than relatively unrepresentative, and unpressured, big-company senior executives. The paucity of the latter's "direct reports" must make the average busi-

ness director/proprietor wonder what they do all day.

Then again, the small businessman's spouse would doubtless be even more amazed. Any housewife - sorry, housewife - must surely have to consider, decide on and operate with more "direct reports" in any normal weekday morning than the prime minister or any (large or small) business executive copes with in a week. Come to think of it, weren't the management techniques of those responsible for housekeeping the basis for the brand of "UK Ltd" management promoted by Baroness T?

Stephen Castell, Castell Computer and Systems Telecommunications, 20 Grange Road, Wickham, Essex CM8 3LT



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Wednesday January 26 1994

Why the Fed should tighten

To raise or not to raise, that is the question. But Alan Greenspan and his colleagues at the Federal Reserve should not, like Hamlet, take too long to make up their minds. If, as has happened so often before, monetary policy were to be tightened too slowly as well as too late, both the credibility of the Federal Reserve and the medium-term performance of the economy might be endangered.

Between the end of 1990 and July 1992, Mr Greenspan's Federal Reserve cut the discount rate seven times, from 7 to 3 per cent. But the economy had already fallen into recession in the third quarter of 1990. With the benefit of hindsight at least, those cuts were both too late and too slow when they came. That was an unfortunate error, particularly, as it turned out, for former president George Bush.

Avoiding the same mistake in the opposite direction is still more important. Cutting rates too slowly does at least reinforce price stability and central bank credibility. Raising too slowly, particularly under strong political pressure from the administration and congress, would threaten the reverse. At worst, the valuable achievement of a low inflation base for long-term expansion could be put in peril.

With the US economy now nearing the third anniversary of the end of recession, watchers of the Federal Reserve are becoming increasingly nervous. Short-term interest rates, unchanged for one-and-a-half years, and not raised for almost five, are also unusually low for this stage of a recovery. They are bound to rise. The question is when and by how much. The answer must be derived from examination of the state both of the economy and of domestic politics.

Full capacity

An expected annualised rise of over five per cent in gross domestic product in the final quarter of 1993 suggests that excess capacity is rapidly diminishing. A slow down in the first few months of this year is inevitable. But full capacity is already quite close. Unemployment at 6.4 per cent, for example, is not far short of the point at which wage inflation would normally be expected to take off. Add to this the high

prices of financial assets, notably equities, and the 11.5 per cent expansion of narrow money (M1) in 1993 and overheating, rather than a faltering recovery, looks the more immediate danger.

Markets agree with this assessment. The upward slope of the yield curve indicates that investors expect short rates to rise above 3½ per cent during 1994. Over the past year-and-a-half of discount rate stability, the Federal Reserve disappointed similar market expectations, but its relative optimism about future inflation also proved well founded. It would be risky, however, for the Federal Reserve to remain persistently more optimistic than the markets on the future course of inflation. If it were to get one of these bets wrong, interest rates might have to be raised substantially to tame inflation. This would be at considerable cost to the economy in terms of lost output and jobs. Worse, the painfully regained credibility under Paul Volcker and Mr Greenspan might be damaged.

Difficult decision

Here is where politics enter. The Federal Reserve is being told not to raise rates from many quarters, not least Mr Clinton's. Prudence suggests acquiescence. But a central bank judged to be the politicians' poodle will have to inflict more damage to the economy than if its credibility is unquestioned. The difficult decision is the one to raise rates before everyone agrees it is necessary. By then it will be too late. Since timely rate increases are always unpopular, Mr Greenspan should tell politicians they have an interest in keeping an independent Federal Reserve as their whipping boy.

Naturally, Mr Greenspan will wish to avoid tightening either too soon or too much. It will be another few months before it is evident how much the rate of growth has fallen since the last quarter. But the Fed must remember that there tends to be a trade-off between early jumps in interest rates and big ones, while certainty always comes too late. It should, in short, be looking to make a small increase in the discount rate soon. A modest firming of interest rates is warranted by the fundamentals and would inject welcome credibility into US monetary policy.

A pale green blockbuster

The environment, more even than other areas such as economics or defence, requires a touch of the visionary to go with a robust framework for those who have to make regulatory, policy or business decisions.

Yesterday's policy blockbuster from Mr John Major and his environment secretary, Mr John Gummer, "Taking Rio forward" tries to fill this bill, and in some respects succeeds. It identifies the goals to which Britain committed itself at the 1992 Earth Summit and maps out routes towards them: a better use of resources, more care for environmental assets such as clean air and water, and respect for biological diversity.

It also stresses the need for a balanced approach which weighs the benefits as well as the costs, something that many people prefer to ignore until their clamour for a cleaner environment translates into higher taxes or a wind farm in their back garden. In other words, environment is not merely a question of government providing the right policy, but people adapting their lifestyles and the way they think.

But having said all that, it is hard to see "Taking Rio forward" having more than a marginal effect on either the way British people conduct their lives, or the way government behaves. The document is notably devoid of new or inspiring initiatives, and it lacks the force needed to convince the reader that it will resolve the increasingly difficult contradictions between the government's environmental aims and its policies in other areas.

Pragmatic approach

To some extent this is due to a desire to retain a pragmatic approach and avoid the damage that an overzealous environmental policy can do to other aspects of the national interest, such as industrial competitiveness. There is no point, for example, in forcing all the country's coal-fired power stations to install expensive clean-up equipment - as Germany has done - when many of them will shut down or be replaced by natural gas within the present policy time frame. Britain can live with this contradiction because it is temporary - though the foreseen solution owes much to the

accident of Britain's natural energy endowments. But the document is weak in key areas, notably transport, which it acknowledges is likely to produce some of the most severe environmental pressures in the years ahead. To hear Mr Major speak yesterday, the only solution the government has to offer is a commitment to increase petrol tax and to study road pricing. Such proposals look suspiciously like making a virtue of budgetary necessity rather than taking a thorough view of the problem.

Clear policy

Here is an area where market forces alone will not provide solutions, yet where a clear policy framework could produce ideas to deal with both the public's increasing exasperation with traffic congestion, and its professed concern for the environment. Fiscal measures, regulation and investment, especially in public transport, need to be blended in the right proportions to achieve the desired result.

It is also premature of the government to claim sustainable policies for areas like energy and forestry when crucial issues such as the future of nuclear power and the privatisation of the Forestry Commission remain unresolved. However, the prime minister's comment yesterday that the forthcoming review of nuclear power should take a broad view of the issue was welcome. Until now, ministers have spoken of the need for a narrow, commercially focused review which would have ignored the environmental benefits that nuclear has to offer as a non-gas-emitting power source.

As for the way forward, the government has appointed an advisory committee to help its deliberations. Though eminent and highly qualified, its members all belong to what might be called the green great and good: some are already advising on other environmental bodies, and it must be wondered how much freshness they will bring to the subject.

Mr Major is right to continue to give high personal priority to the environmental agenda, on which Britain has a less than first-rate reputation. The search for clarity and consistency, however, is not yet at an end.

"I want high standards objectively delivered... I want genuine self-regulation... I want people to put mistakes right with their own money... I want an independent committee of inquiry to look at investor protection."

It is an advertisement that the Prudential, the UK's largest life insurance group, has not yet written. But, in the style of the group's current campaign, it would capture the - sometimes conflicting - aspirations of the main players in the British life industry for their future regulatory framework.

Not everyone is going to be satisfied. The board of the Personal Investment Authority - the embryonic self-regulatory organisation which many in the industry hope will overcome fears about the way life products are sold - meets today. It will discuss its application for recognition by the Securities and Investments Board, the City's chief watchdog.

On one side the board faces pressure from the SIB to restore public confidence in an industry hit by concern over, for example, the sale of personal pension schemes.

On the other side, there are many in the industry who fear that the SIB's demands will prolong uncertainty over how the financial services sector is regulated. Since the 1986 financial services act introduced the system of self-regulation within a statutory framework, there has been an unsettling series of changes.

What role the PIA should carve for itself has been a matter of debate since early 1992. Then moves began to replace the widely criticised system under which regulation of retail financial services is split mainly between Lauro and Fimbra, responsible for life companies and independent financial advisers respectively.

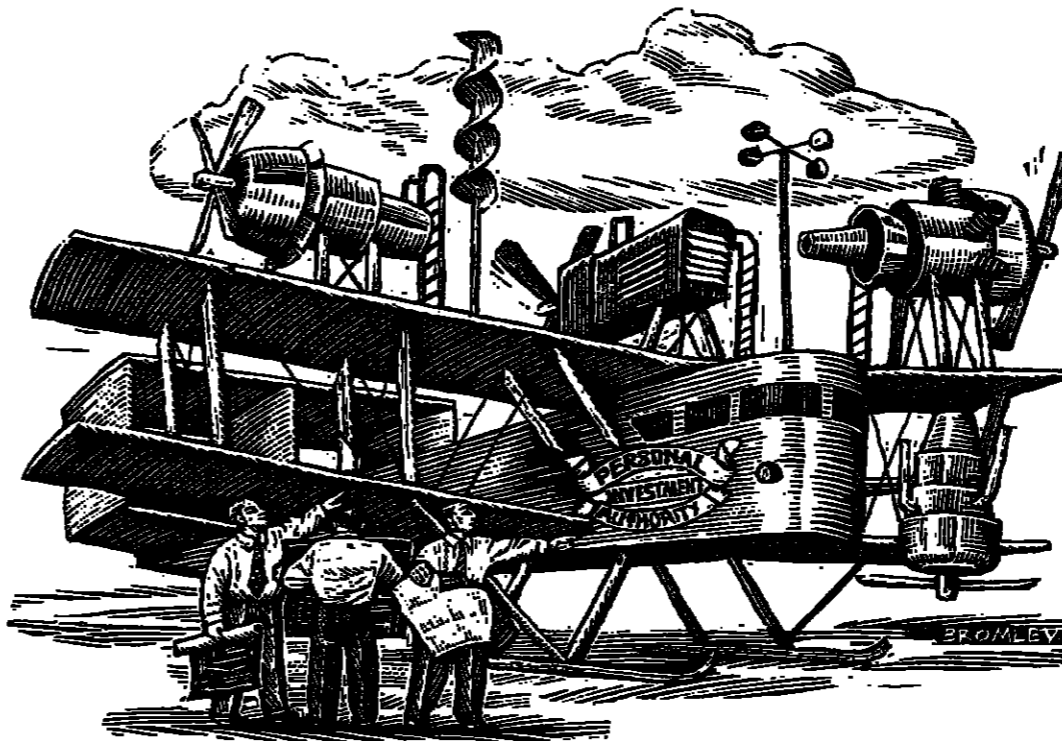
There still is no consensus among practitioners about the best way forward: as the arguments have ranged some, including Mr Mick Newmarch, the Prudential's chief executive, have said that the best course is to move to a full-blown statutory system.

Now the debate may be coming to a head. The PIA, led by Mr Joe Palmer, a former chief executive of insurance group Legal & General who became PIA chairman late last year, is close to finalising draft proposals to present to the SIB and to the industry in the coming weeks. If the PIA's plan fails to win enough support, the case for the government introducing statutory regulation will be strengthened.

All the indications are that the PIA's plans fit closely the specifications of the SIB. Last January its chairman, Mr Andrew Large, told the PIA he wanted "a step change

Alison Smith examines a long-running regulatory challenge confronting the UK financial services industry

Squabble may spoil life's ambition



in standards and practices". That, he said, must include having only a minority of industry representatives on the PIA board, tougher criteria for admitting companies or individuals into the industry, and an effective system for monitoring compliance with PIA rules.

Assuming the PIA board agrees the main points of its application for recognition today, the SIB should announce soon that it is "minded to recognise" the PIA as a regulator.

The next stage will be for the PIA to publish its prospectus and, if it is to become operational, persuade a majority of the life industry to accept it. The PIA hopes to be open for business this summer. But the signs are that the industry is not likely to offer unconditional support for the prospectus: the shadow boxing of recent months will turn into a last of nerves.

Four main issues are at stake:

● Most contentious is the composition of the PIA board. The PIA

wants nine of its 19 members to be practitioners, and the other 10, including the chairman and the chief executive, to be "public interest" directors who do not work in the industry.

This has met stiff opposition. Mr Michael Doerr, chief executive of Friends Provident, the mutually owned life and pensions group, says self-regulation should mean just that: "I'm looking for a change of mind on board membership."

In an attempt at conciliation, Mr Palmer, PIA chairman, has said public interest directors could include people who had previously worked in the industry. But Mr Jim Stretton, deputy managing director of Standard Life, who resigned from the PIA board earlier this month in opposition to its plans, says: "This would be the worst of all possible worlds."

He believes that Mr Palmer's proposals would fall short of genuine self-regulation, while still not convincing the public that non-practitioner board members were acting in the public interest.

Admission procedures are also sensitive for the PIA. Almost all the organisations and individuals who will apply to come under the PIA's umbrella will have been accepted by existing regulators. To exclude significant numbers would anger the industry, but if the PIA excludes nobody, it would be harder to show that the regulatory regime was tougher.

"An opportunity would be lost if PIA membership was not seen as something you have to aspire to," says Mr Arthur Selman, senior executive responsible for financial services at Halifax building society.

The most likely outcome is that some companies and individuals will be excluded - but the admissions procedure will not be the last word and the PIA will rely on continued monitoring to weed out the fraudulent and incompetent.

● Financing the PIA. The industry

is reluctant to bear significantly higher costs for regulation. But the PIA appears to have pitched its budget sensitively, envisaging first-year running costs of about £30m - only slightly higher than the combined running costs of the existing regime.

● Arrangements for compensation. Here the picture is less clear-cut, since the PIA's plans depend on the outcome of a separate consultation exercise by the SIB on proposed changes to the investors' compensation scheme, which covers all financial services and ensures that badly advised customers can be compensated even if the company involved cannot make payments.

"Mistakes will happen - we want to be sure that when they do the people who make them put them right with their own money," says Mr Chris Sharp, chief executive of Northern Rock building society and a PIA board member.

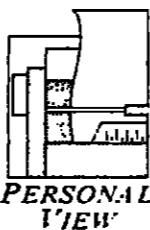
On all four issues, the options for life insurance companies which do not wish to accept the PIA's prospectus are limited. The regulators have the upper hand: the SIB could increase the pressure to join the PIA by withdrawing recognition of Lauro and Fimbra.

One alternative is for life companies and advisers to opt to be regulated directly by the SIB in an effort to undermine the PIA. The disarray this would cause could, if enough exercised this right, trigger early moves to statutory regulation of financial services. That may please some in the life industry - but would be the opposite of what most practitioners, who support self-regulation, would want.

So the only realistic option for disgruntled life insurers is to ensure there are enough voices opposing the PIA's plans to stop the organisation from gaining credibility. In the brinkmanship likely in the next few months, the widespread desire for stable regulatory arrangements could prove decisive. Few leading figures in the industry have an appetite for confrontation with the SIB. Mr Newmarch of the Prudential has not ruled out the Prudential joining the PIA. Similarly, Mr Stretton of Standard Life says his company "is not in the business of just making gestures".

Nevertheless, the concern in the financial services industry over the PIA's proposals are real. There are few who are prepared to offer unqualified support for the new body. If its long-term future is to be assured - and a statutory regime avoided - it will need to prove that it can win the goodwill of the industry and deliver high standards for investors. The ructions surrounding its establishment have not been auspicious.

Cuba's switch from state economy



PERSONAL VIEW

In the early 1990s, half of Cuba's formal economy disappeared, according to the Cuban government's own statistics. Export earnings fell by about 80 per cent between 1989 and 1992, while imports fell by about 70 per cent in the same period. When in the spring of 1993 Cuba's sugar harvest output fell by a third compared to the 1992 level, President Fidel Castro knew he had to authorise significant economic changes if he was to reactivate the economy and save his regime.

Since the summer of 1993, a series of economic reforms has been implemented. Their effects are still difficult to gauge, but their design and preliminary results shed light on Cuba's near-term prospects. The partial currency liberalisation also provided a strong incentive to ordinary Cubans to move out of the formal peso-denominated economy into the illegal economy or into the foreign currency segments of the formal economy. In effect, the government's decision expanded the

money supply without increasing output. This created economic and political distress.

In August, the government allowed individuals in more than 100 occupations to go into business for themselves (a modification in October excluded medical doctors and teachers). Until then, the only lawful way to contract a plumber or

authorising the free contracting of certain services. It says progressive taxation would be the best way to regulate and tax such activities, but then admits the government is incapable of administering such a system. Instead of tax payments relative to the volume of economic activity or to earnings, self-employed persons are to pay a monthly flat fee.

Today Cuba has three co-existing economies. One is illegal. Another is legal and operates only in hard currency. The third is the rapidly shrinking official economy, which operates in pesos through state enterprises. Most of Cuba's commercial transactions now occur in the first two private economies. The Cuban economy's transition from socialism is well under way.

The government's decision expanded money supply without increasing output

to get a hair-cut was to go to the state enterprise in charge of providing such services. The effects of freeing the market are modest, however, because most services had been freely, though illegally, available. The potential dynamism this measure could impart to the economy is also limited: no one is authorised to hire non-relatives. In September, the partial privatisation of state farms was authorised.

Because of these limitations, the economic results of the measures are modest and are likely to remain so unless additional steps are taken. Some are already in the pipeline. The central bank is considering changing the rigid exchange rate policy, a move which, with the decision to permit circulation of foreign currencies for retail trade, might enable Cuba to qualify to apply for membership in the International Monetary Fund and the World Bank some time in 1994.

These modest economic reforms have more far-reaching political implications. Above all, the Cuban government has admitted through these decisions that it can no longer govern much of the economy. The weakness of the Cuban state was especially evident in the decree

authorising the free contracting of certain services. It says progressive taxation would be the best way to regulate and tax such activities, but then admits the government is incapable of administering such a system. Instead of tax payments relative to the volume of economic activity or to earnings, self-employed persons are to pay a monthly flat fee.

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Jorge I Dominguez

The author is Frank G Thomson professor of government, Harvard University, and, during 1993-1994, a visiting senior fellow at the Inter-American Dialogue in Washington.

OBSERVER

Better late than never

■ What's Hanson up to in Australia? Having toyed with the idea of selling its 40 per cent stake in Renison Goldfields, which it inherited with its 1988 takeover of Consolidated Gold Fields, it seems to have decided to try to make a go of it. Tony Cotton, 50, one of Lord Hanson's ablest lieutenants, has been sent down to take over as chairman.

It's an unusual move for a company that has 88 per cent of its capital tied up in North America and the UK. Hanson has never shown much interest in the Pacific basin and Renison is a bit of a tiddler in the world mining industry. If Derek Bonham, Hanson's relatively new chief executive, wants to prove that Hanson's world extends beyond the North Atlantic, Renison will need beefing up substantially.

Rival BTR has already shown what can be done down under. Who knows, Tony Cotton could be Hanson's answer to BTR chief executive Alan Jackson, who made his name at BTR Nylex.

Downing Street's announcement

that Paul Lever is to take over from Pauline Neville-Jones as the chairman of the joint intelligence committee completes the latest game of Whitehall musical chairs. Neville-Jones takes over as the FCO's political director. What the No 10 press release didn't say was that both Lever and Neville-Jones made their names in the early 1980s as respectively chief and deputy chief in the cabinet of the then British commissioner in Brussels, Christopher Tugendhat.

Another Scoop

■ At last a political breakthrough for the followers of the Maharishi Mahesh Yogi, founder and leading exponent of the business of transcendental meditation. Having failed with another great transcendental philosophy - marxism - Joaquim Chissano, Mozambique's president, has taken up the Yogi's ideas.

While Chissano chants, some of his cabinet are busily engaged in less ascetic practices, such as making lots of money from the rebuilding of Mozambique's war-torn economy. Maputo-based businessmen, long accustomed to necessary kickbacks, complain that government officials facing early retirement now have insatiable appetites.

But the prospect of Chissano's Fretilim party - in power since 1975 - failing in Mozambique's first elections next October does not



'We're still not sure where to bury the cat'

cheer spirits either. The rebel group Renamo - once described as Africa's answer to the Khmer Rouge - is busily acquiring the trappings of a conventional political party. It has opened a sumptuous HQ in Maputo and spent \$100,000 of UN money on furnishings.

Coffee house blues

■ Lloyd's has been going through difficult times - more than £50m of losses, to be precise - but does its future really lie in being an upmarket site for cheeseburgers and rowing machines? The insurance market which

started life as a coffee shop has formed a joint-venture with Pret a Manger, a chain of sandwich bars and cafes, and a sports club could open in the basement.

Lloyd's left part of the floor space at its former HQ on Lime Street to Pret a Manger, receiving a percentage of the bar's turnover. Stephen Hall, Lloyd's finance director, says "the name of the game is reducing costs and jacking up revenue". Nick Phillips, Lloyd's property manager, wants to do a deal with a leisure company to open a sports club in the basement.

The returns will not be massive; security considerations mean that only employees of the corporation or of the agents and brokers may use either facility. Now that could be a really exclusive club.

Bock's bark

■ Presented with the chance to quiz Dieter Bock at Lomro's first investment analysts meeting, what would you have asked the man who has been fighting one of the most intriguing boardroom battles in recent corporate history?

Pedestrian and respectful questions about interest charges and dividend cover were about all the obviously rather awestruck city scribblers managed yesterday as they foregathered to hear the next stage of Bock's campaign to turn Lomro into a rather more orthodox company. The organisers had been

distinctly nervous about the whole affair and the publicity-shy board's underwhelming performance at the rehearsal the previous evening had brought to mind nothing more than a "training session by the Kuwaiti national football team" in the words of one observer.

But it all passed off without incident - and, of course, without Tiny Rowland. "It will be something to tell the grandchildren," remarked one participant, apparently without irony. Bock, meanwhile, delighted his new audience with his increasingly acute impression of a German character straight off the set of 'Ello 'Ello.

Unbending

■ The fact that Anita Keating, the wife of Australian premier Paul Keating, failed to curtsy for Prince Charles on his arrival in Australia, has caused the usual stir. However, the British media seems to have missed the point. Mrs Keating, a former airline stewardess, comes from Holland whose royal family abolished curtsying long ago.

Hog man - eh?

■ The Scots like a party but three days is a bit much. Yesterday's Prayer for the Day on BBC Radio 4 - on the morning of Burns Night - was given by one Tim Haglis. He's also doing it today and Thursday.

Dispute in German engineering industry IG Metall prepares for strikes over pay

By Quentin Peel in Bonn

Labour conflict in Germany's vital engineering industry loomed yesterday when wage negotiations ended in deadlock in two key regions.

Union negotiators warned that "massive" token strikes were likely from next Monday, after the engineering employers refused to move from their insistence on a wage freeze, and a reduction in holiday entitlements for the 3.4m members of IG Metall, the engineering workers' union.

The fourth round of talks between the union and Gesamtmetall, the employers' federation, ended without movement on either side in both North Rhine-Westphalia, with 950,000 workers involved, and northern Baden-Württemberg, where the negotiations cover 750,000.

Mr Klaus Zwickel, the union leader, warned that his members were gearing up for a "major

social conflict" in the light of the employers' refusal to compromise on their demands.

At a national conference of the opposition Social Democratic party in Bonn, he appealed for support to counter what he described as the "catastrophic course" of the engineering employers, who have called for cost cuts of up to 10 per cent from the current wage round.

The employers, however, are expressing much greater confidence that a deal will be agreed without an all-out strike.

Mr Hans-Peter Sühli, the president of the German chambers of trade and industry (DIHT) and former engineering industry negotiator, said he did not believe either side was prepared for such a conflict. He predicted a "relatively extended wage round" before a conclusion was reached.

The union is seeking wage rises of between 5.5 and 6.0 per cent in the different negotiating

regions, to compensate for inflation and claimed increases in productivity. In contrast, the employers say that with job losses in the industry running at around 30,000 a month over the past year, real cost cuts are essential.

Mr Zwickel appeared to moderate his position yesterday, when he said the union had made job security its highest priority. At the start of negotiations, he said that both job security, and the maintenance of real income levels, were of equal priority.

Both sides are obliged to negotiate without strikes or lock-outs only until Friday this week, which is why a campaign of token strikes is expected from next week.

However, if neither side formally declares the negotiations failed, the existing wage levels, and the existing package of holiday bonuses, will remain intact.

Government bonds, Page 21

Pre-strike rate cut bolsters Spanish markets

By Tom Burns in Madrid

Just two days before Spain's unions plan to bring the country to a standstill in a 24-hour general strike, the Bank of Spain yesterday boosted the stock market and the peseta with a quarter-point cut that brought the benchmark intervention rate down to 3.75 per cent.

The move reflected confidence by the monetary authorities that domestic recession has bottomed out, that headline inflation, which stood at 4.9 per cent at the end of last month, will fall as low as 3.5 per cent in the course of this year and that currency turmoil is unlikely in the coming months.

The timing of the cut could, however, have been brought forward to guarantee tomorrow's union protest against the government's economic policies. The chief issue in the national stoppage is the introduction of labour market reforms that will make it easier to hire and fire workers in order to increase competitiveness.

The Madrid Bolsa index rose to touch a high of 343.81 on news of the cut before easing to close at 342.94, up 3.93 from Monday. Top retail banks followed up the new intervention rate by announcing lower lending costs.

The peseta, which had been under pressure at the beginning of this year after the rescue of Banesto, the big banking group, had by late afternoon strengthened to Ptas80.93 against the D-Mark against Monday's Ptas81.61 fix and had firmed by more than a peseta against the dollar to Ptas141.90.

Analysts believe the benchmark rate will fall by about two points to around 7 per cent this year because of the favourable exchange rate and inflationary trends, and the need to assist economic recovery.

But they had not expected the normally cautious Bank of Spain to introduce a cut so soon and, much less so, before the planned general strike.

Gonzalez set to face down unions, Page 2

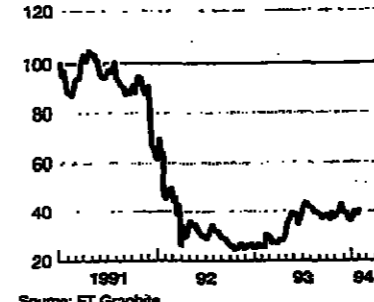
Tiny steps forward

THE LEX COLUMN

FT-SE Index: 3444.0 (-37.4)

Lourho

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphite

— and Zeneca before long — demands that the marketing effort is maintained.

Yet the salesforce may look under-employed within two years unless Fisons can conjure something from its research pipeline or, more likely, license a good product from outside.

Intal, its biggest-selling drug, faces competition from cheaper generic alternatives this year. Although the precise timing and impact are matters for guesswork, sales will surely suffer. The US launch of Tilade, Fisons' new asthma treatment, appears to be going well enough. But it is too early to pass judgment. Until this shortage of new products is addressed, the suspicion remains that yesterday's round of pruning alone will not be enough.

Meanwhile the loss-making instruments division is under the microscope. That points to more restructuring provisions to come, possibly with the 1993 figures in March. With the stock market transfixed by the chances of a bid, though, the red ink is unlikely to unsettle the shares. A rating in line with that of Glaxo is otherwise difficult to justify.

Cost of capital

With rate of return on investment a hot topic with the utilities, the statistics in BZW's annual equity-gilt study make interesting reading. Unfortunately, there is a large deviation between the two main ways of calculating the cost of capital. The dividend discount model gives an estimate around 7 per cent while the capital asset-pricing model produces a figure of around 10 per cent.

In tending towards the lower figure

BZW seeks to resolve the problem by suggesting that the risk-free real interest rates of 2-4 per cent, often used in the CAPM, are too high. It thinks long-run real rates may be as low as 1.2 per cent. If true, that suggests a brighter outlook for gilts, and hence equities, than many now fear.

Yet if the overall market is supported, there is a question over the likely level of corporate investment. It is striking that, in the past, two-thirds of total returns on equities have come from dividends. This UK bias towards draining cash has arguably led to under-investment and a smaller capital stock than might otherwise have been possible. Looking forward the study suggests that companies have not adjusted their hurdle rates of return to reflect lower inflation and financing costs. Profitable investment opportunities may thus be missed. That particularly applies to banks, whose high hurdle rates and central role in credit creation may be particularly important. The risk is that investment may be curbed because gun-shy banks are trying to fill in the holes they dug for themselves in the last cycle.

Forté

Forté must be glad it did not sell its Gardner Merchant catering business to Compass. The terms of the Alpha airport group flotation put a price tag on the total business, including the contract catering buy-out and the 25 per cent stake Forté has retained, of over £700m. That is some £200m more than Compass would have paid. Moreover, after the Alpha deal, Forté's balance sheet will look more comfortable. Gearing will fall to little more than 40 per cent and interest cover will rise above two times. But that still begs the question of whether Forté was right to sell.

A degree of ambivalence is indicated by its continuing stakes. The technical reason is that Forté's presence helps ensure existing contracts with customers will be retained. Forté, though, also aims to share in profits growth. Alpha's prospects are limited by its duty-free involvement and the rigorous demands of its airline customers, while contract catering has less room for cyclical recovery than hotels. Yet both are cash-generative businesses with scope for expansion. It will be interesting to see if Gardner Merchant's eventual flotation reveals a performance better than that which Forté has managed in hotels.

Major says cars and roads are target for 'green' taxes

By Bronwen Maddox and Kevin Brown in London

Mr John Major, the British prime minister, said yesterday that more "green" taxes could be on the way as he unveiled his government's long-awaited policy statement on safeguarding the environment into the next century.

Indicating that road pricing and higher motor fuel taxes were prime targets, Mr Major said that "sometimes quite painful political action may be necessary to meet environmental objectives".

"People may not always be able to make journeys as easily or as cheaply as before — (they) will have to reconcile their desire to protect the environment for future generations", he said.

Earlier this week, Professor David Pearce, head of environmental economics at London University and a former government adviser, criticised the govern-

ment for charging road users too little.

In research published tomorrow, he says the "social cost" of road use — pollution, congestion and accidents — has been between £23bn and £28bn (\$34bn-\$39bn) a year, twice the amount raised in taxes on road users.

Yesterday's publication of four strategy papers — together nearly 500 pages long — fulfils one of the UK government's commitments made at the Rio Earth Summit in June 1992. The documents set out the UK's policy on climate change, biodiversity (preserving the diversity of the world's plants and animals), forests and sustainable development.

Mr Major also announced that a new panel would be set up to give the government "frank, external advice of the very highest quality" on environmental issues. The five-strong panel, which will meet four times a year, will be headed by Sir Crispin Tickell, Warden of Green Col-

lege, Oxford, and former British permanent representative to the United Nations.

Opposition MPs and environmentalists attacked the reports for failing to draw up new policies or specify targets. Mr Chris Smith, Labour's environment spokesman, said "It is all very well to set up distinguished committees, but that does not amount to very much action".

Mr Simon Hughes, the Liberal Democrat spokesman, said that sustainable development was impossible without "a coherent energy policy, a comprehensive energy conservation programme and an end to motorway widening madness".

Government officials acknowledged that they were handicapped in setting out forestry policies because of uncertainty about plans for privatising the Forestry Commission.

Green economy, Page 10
Editorial Comment, Page 13

Japan

Continued from Page 1

The outlook for money supply weakened, so breaking a 12-month trend, while housing starts, until now one of the few bright patches in the economic gloom, ended a five-month rise.

Two inconclusive signs of improvement came with an upturn in purchases of machinery by private sector companies and the first rise in job offers for three months.

But department store sales for 1993 declined by 6.6 per cent.

Deutsche Telekom sell-off

Continued from Page 1

postal services, mainly because of worries about job losses. The FDP, however, had argued that competition should be introduced across the sector, implying the stripping out of some of the profitable areas such as freight. The government is hoping the bill will be adopted by the summer so that the law could come into force at the start of 1995. This would allow Deutsche Telekom to raise much-needed cash for investment and to reduce its

DM100bn (\$57bn) debt by selling a first tranche of shares in 1996.

However, the FDP and the dominant Christian Democrats (CDU) seem to have reached an informal agreement for the partial liberalisation of the postal monopoly at a later date. Mr Rainer Funke, state secretary in the justice ministry and liberal MP responsible for the privatisation bill, said that Mr Wolfgang Böttsch, the post and telecoms minister, could decide independently to liberalise postal services other than regular mail.

Banesto plan

Continued from Page 1

in a plan that could turn Banesto into a powerful rival.

"We thought we were going to be asked to refloat a cruiser but it turns out we will be asked to build an aircraft carrier," said a senior bank executive.

The consensus is that a refloated and independent Banesto should be a considerably smaller institution.

Mr Rojo is due to meet the heads of Spanish savings banks today to discuss Banesto.

CANADIAN BONDS

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FT WEATHER GUIDE

Europe today

Low pressure over southern Sweden will bring cloud and snow to Scandinavia. North of Oslo and Stockholm, temperatures will remain below freezing. A ridge of high pressure will produce some sunny spells over southern England but a frontal system approaching from the west will bring rain to Scotland and Ireland. The Benelux and Germany will have frequent showers with gusty winds. Sunny spells are likely in western and southern France. North-eastern France will have periods of heavy rain while the Alps will have snow. Sunshine will be plentiful in Spain and Portugal, southern Italy, the southern Greek islands and the south-western coast of Turkey.

Five-day forecast

It will continue unsettled from southern Scandinavia to the Alps, with rain and strong westerly winds and only brief brighter spells. Northern and central Scandinavia will stay below freezing. Further south, it will remain relatively mild.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	28	Madrid	15	Frankfurt	8	Malta	16
Accra	33	Chicago	5	Geneva	6	Manchester	7
Algiers	21	Cologne	5	Gibraltar	5	Paris	14
Amsterdam	7	Dakar	22	Hamburg	3	Rome	12
Antwerp	7	Dallas	34	Helsinki	23	Sao Paulo	12
Bahia	25	Dubai	24	Hong Kong	23	Singapore	31
Bangkok	32	Dublin	9	Kuala Lumpur	25	Stockholm	1
Beijing	1	Edinburgh	22	Lima	18	Strasbourg	6
		Faro	18	Lisbon	17	Sydney	20
				London	4	Taipei	18
				Luxembourg	4	Tokyo	14
				Lyon	4	Toronto	-13
				Madeira	17	Tunis	19
				Majorca	17	Vancouver	7
						Venice	9
						Vienna	10
						Warsaw	2
						Washington	19
						Wellington	-12
						Winnipeg	-12
						Zurich	8

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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MOBILE COMPUTING

Wednesday January 26 1994

Portable computers have matured in the past few years, though there is still a long way to go. 1994 seems set to be the year of the subnotebook computer and suppliers are enthusiastic about the potential of the market, writes Alan Cane

The portable revolution

Competitors in the Whitbread Round The World yacht race, now in the fourth leg of their 32,000-mile journey, can attest to the power of portable computing. Every boat in the race is fitted with a notebook PC as the terminal for its satellite-based communications system. Information - weather data, for example - can be transmitted and received from anywhere in the world. The computers automatically transmit daily reports on each yacht's location, direction and speed to the race office in Southampton.

Appropriately enough, the maker of the notebooks, Toshiba of Japan, is sponsoring one of the leading boats.

Electronic notebooks are light, robust and reliable enough to withstand the rigours of an ocean-going yacht race. That is powerful testimony to the way that portable computers have matured in the past few years. There is still, however, a long way to go. Power is still the biggest drawback. Even with the most advanced chemical technology and the best power-management systems, battery life is only a few hours and the machines are too heavy for comfort.

Remarkable computing power can be shoehorned into a notebook. Tadpole Technology, a UK-based electronics

group, has managed to build a notebook computer with the power of a Sun workstation. It has designed a notebook workstation for IBM which will be launched soon and is likely to develop notebook workstations for other US manufacturers.

Today, notebooks have for the most part displaced the larger, heavier laptop machines as the portable computers of choice. 1994 seems set to be the year of the subnotebook computer as manufacturers compress powerful systems into pocket-sized packages and their customers devise new ways of computing on the move.

The portable revolution is being driven by the needs of business. Over 90 per cent of the UK's larger companies already use portables to some degree. For some companies they are simply small, light substitutes for desktop machines. But for most, they have become an indispensable tool for field workers - salespeople, inspectors and engineers.

(Inevitably, the backlash has started. Some people worry that portables could become the computer equivalent of an "electric fork", an unkind term for a gadget that works as well whether the power is on or off. They argue that glitzy technology is no substitute for old-fashioned business discipline.)

What counts as a portable computer? Definitions can often seem to be mere semantics as the lines between categories blur, but there are at least four distinct kinds.

1: Notebooks. Battery or mains powered, these are typically the size of a sheet of A4 paper and weigh less than three kilograms. They have full-sized, backlit displays and full-sized keyboards and at least 80 megabytes of hard disk storage. A further refinement may be a "docking station" which converts the notebook into a desktop system. Most PC manufacturers now offer a range of notebooks with proprietary features to distinguish them from the competition. IBM, for example, eschews conventional mouse or trackball systems in favour of a keyboard-mounted strain gauge - "Trackpoint" - for cursor control.

2: Subnotebooks. Again, these are battery or mains powered. They are the size of a paper-back book and weigh a kilogramme or so. Subnotebooks are already available from, for example, Olivetti of Italy and Tulp of Holland. They have backlit displays, adequate if tiny keyboards and are capable of running the latest version of Microsoft's Windows. Olivetti's Quaderno has a digital sound recorder built in.

3: Palmtops. These - for instance Hewlett-Packard's 100LX or the Psion Series 3 - are described as "unconsciously portable" and are small enough for a user to carry at all times. The HP machine is preloaded with Lotus 1-2-3 which can be called up at the press of a button.

4: Personal digital assistants. This is a new category, which includes the Apple Newton, the EO 440 and the IBM Simon. Handheld devices which combine computing power with communications capabilities.

Suppliers are enthusiastic about the potential of the market. Mr Nick Eades, IBM UK's brand manager for portable computing, says that growth in the portable market has been "phenomenal" this year. Mr Lewis Schrock, Compaq's director of product marketing, foresees an explosion of different



categories of machine as the market fragments.

1993 was not a bonus year for every PC maker, however. Dell Computer, a pioneer of direct marketing and the third largest US personal computer maker, recorded its first ever quarterly loss after being forced to abandon a poorly conceived line of notebook PCs.

Mr Glenn Henry, Dell's former chief technologist, said the abandoned range was simply not competitive. Dell had not thought through its mobile

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computing strategy, he said. The company has now formed an alliance with Sony of Japan and is expected to return to the portable market with competitive products this year.

Calculating the size and

growth rates of the global market for portable computers is difficult. It is a comparatively new market and the principal market research companies are still analysing their figures for 1993. There is little doubt that overall world shipments in 1993 came to about 6m units, 3m in the US and 1.5m each in Europe and Japan.

Mr Bruce Stephen, of the US-based company IDC, says preliminary worldwide indications are that Toshiba and Compaq are running neck and neck for

first place in portable computers, with Apple Computer in third place. Toshiba and Compaq both use MS/DOS and Windows as their operating system, while Apple continues to use its own, unique System 7.

Compaq was the market pioneer for portable computers in the 1980s, but was slow in following Toshiba into the notebook sector.

The absolute numbers, however, are not as important as the growth prospects (four desktop computers were sold for every portable last year). Worldwide, growth in notebooks and subnotebooks in 1994 is expected to be 20-25 per cent, well ahead of the 6 per cent or so expected for the computer industry as a whole.

The significance of the sector is perhaps best illustrated by the fact that technology developed for portables is beginning to make its appearance in desktop machines.

Examples include power management and PCMCIA cards. Batteries based on lithium technology can give twice the power for the same weight but portable computers are power-hungry. Smart software has been devised to minimise power requirements, essentially by turning off parts of the computer that are not active.

Exactly the same technology can be used in desktop machines to reduce power consumption and give a more environmentally friendly or "green" system. A few watts of power saved per machine can add up when a company with several thousand PCs leaves then on continuously.

PCMCIA (Personal Computer Memory Card Manufacturers International Association) cards are the size of a credit card and can be slipped into any computer with a PCMCIA slot. They offer the functions of network adaptors, modems and disk drives. It is possible, for example, to build a 1.8 inch 340 megabyte hard disk drive into a PCMCIA card.

Some argue that the establishment of the PCMCIA standard will prove as important to portable computing as IBM's PC design was to the desktop computer business.

Leaders emerge in notebook market

The "clam-shell" notebook computer has become the *de facto* standard for portable computing in the 1980s, an important business tool and one of the fastest-growing segments of the world computer market, writes Paul Taylor.

The success of notebook computers stems from advances in silicon integration and other technological developments. As a result, PC manufacturers can pack most, if not all, of the processing power of a desktop computer into lightweight A4-size packages.

Low-power chips, together with improvements in screen and battery technology, have enabled engineers to build machines with brighter displays and longer battery lives while new lightweight miniaturised components such as high capacity hard disks deliver full desktop functionality. While many notebook machines are still based on Intel's 386 processor, machines built around the more powerful Intel 486 processor are catching up fast.

Over the past few years, notebook computer sales have shown dramatic growth as customers looked to them to provide fully functional computing power on the move while computer manufacturers dived into the notebook market to bolster sagging margins.

According to Dataquest, the market research organisation, notebook shipments in Europe jumped by 27 per cent between the 1992 first half and the corresponding period last year. Mr Jeffrey Goldberg, a Dataquest analyst, says

Continued on Page 6

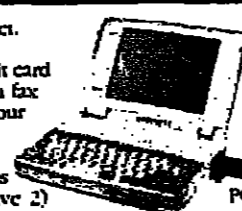
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MOBILE COMPUTING 2

Paul Taylor looks at progress in an important area of communications

Modems get faster and smarter

For most serious portable computer users a modem is another essential piece of kit to be packed alongside the spare battery pack, the power adapter and connecting cables.

A modem (modulator/de-modulator) enables a computer to exchange digital data over an older-style analogue telephone line with another machine, typically a head-office computer which is also equipped with a modem.

Traditionally, portable modems have commanded a 40 per cent price premium over their desktop counterparts, but new competition is beginning to erode the differential.

At the same time, advances in silicon integration and chip design have enabled modem manufacturers to build much smaller devices - including some which fit into the credit-card sized PCMCIA (Personal Computer Memory Card International Association) slots found in an increasing number of portables.

This new breed of lightweight portable modems offers much faster transmission speeds than its predecessors, with sophisticated data compression and error correction

features and increasingly the ability to send and receive faxes as well as data.

Until recently, the portable computer user had relatively little choice in terms of modems. Often the only alternatives were paying a premium price for a proprietary internally fitted card-modem, or buying an external cigarette-pack sized portable modem made by one of only a handful of manufacturers. Most devices were capable only of transmitting data at a relatively slow 2,400bps (bits per second), also known as V.22bis.

While competition was fierce and modem prices fell quickly in the US, in Europe the price of modems approved for connection to the public telephone systems has remained high, sparking controversy in the

UK in particular and encouraging a flood of imports that have not been passed by the British Approvals Board for Telecommunications.

While market analysts and others have argued that the price of approved modems has been maintained artificially in Europe, manufacturers, including the recently formed Modem Approvals Group in the UK, insist that the higher prices reflect the added costs and delays involved in obtaining separate approval for devices for use in each of the main European markets.

In the longer term the European Commission plans a streamlined pan-European approval process, although this is unlikely to be in place much before the end of the decade. In the meantime, however, some US modem manufacturers,

including US Robotics and Express Technology, have broken ranks and begun selling cut-price, high-speed BAST-approved desktop modems in the UK.

Modems are also getting faster and smarter. The current business standard is for data transmission at 14,400bps (also known as V.32bis) coupled with V.42 error correction and V.42bis data compression which allow even higher transmission speeds. Most portable modems, which currently cost from about £200 to £400, can also send facsimile messages.

Some notebook computers, such as AST's PowerExec and Bravo ColourPlus ranges, are now being bundled with high-speed PCMCIA modems - in AST's case Pace Micro Communications' new Microlin

V.32bis fax/modem.

Meanwhile a new international standard, dubbed V.Fast or V.34, covering data transmission at 28,800bps is expected to be agreed by the International Telecommunications standards committee shortly.

However, the delay in approving this new standard has already led to a confusing plethora of new proprietary interim standards including 19.2Kbps, V.32 turbo and V.Fast Class (VFC) promoted by various manufacturers.

While modem hardware is becoming increasingly sophisticated, so is the software which operates with it. For example, US-based XcelNet has developed an integrated suite of remote business applications and communications software, which

has been dubbed RemoteWare.

RemoteWare, which is already used by more than 400 companies in the US and a growing number of customers in the UK including Windsor Life, the direct sales insurance company, enables head-office IT staff to manage communications - including distributing software - with portable computers in the field over ordinary dial-up telephone lines.

Currently most portable modems, including PCMCIA card modems, are designed to be plugged into a wall telephone socket. However some niche products are designed to cope with special situations. For example Tricom, a UK-based manufacturer, sells modems which are designed to work with "virtually any telephone in the world".

The company's two Pearl fax/modems feature a fold-out device which can be attached to the telephone handset enabling them to be used with pay phones, mobiles, hotel phones or anywhere else where a telephone wall socket is not available.

However wireless modems, designed to be used with the existing analogue cellular telephone services or, in the case of the Ram MobileModem, with the new breed of dedicated mobile packet-switched data networks, represent the ultimate in portability since they will allow mobile computer users to transmit or receive data and faxes from virtually anywhere.

Eventually, however, there may be no need for modems at all since, at least in theory, it should be possible to plug a digital device, including portable computers, directly into the next generation of mobile telephones operating on digital cellular networks. Some devices, such as personal digital assistants, may even combine the portable data processing and voice telecommunications functions.

DATA TRANSMISSION

Solutions are starting to emerge

For the portable computer user who needs to exchange data with the office, plugging a modem into a telephone socket is fine when one is available. But on the move, wireless telecommunications provide the only real solution.

Indeed, the success of new lightweight handheld computing devices such as personal digital assistants is likely to depend to a large degree on the effective integration of data processing and telecommunications functions.

It has been possible for some time to transmit data over an analogue cellular telephone system such as the Cellnet or Vodafone networks in the

UK, though it is generally more difficult, slower and considerably more expensive than over the fixed public switched telephone network.

These factors, together with concerns about line quality and dropped calls, have meant that relatively few business customers use cellular data systems to transmit data.

For those cellular voice customers who do require data communications, one solution has been to use a special cellular modem. For example, in the UK Vodafone's mobile data service uses a special cellular data link control (CDLC) modem to enable customers to transmit and

receive error-free data over its network.

It is also possible to use a device called a cellular line interface (CLI) in conjunction with a standard modem and a some mobile telephones manufactured by NEC and Motorola.

This was the solution chosen by Mercury Mobile Services for its client, Unisys, when the US computer group needed to "bolt on" a data transmission service for its UK-based team of field engineers who already had car telephones linked to the Vodafone network.

Using their notebook computers and plug-in Multitech PCMCIA card modems, the engineers can

now call up and download a manual page from the roadside at a data speed of 4,800 bps.

Data transmission over the new generation of digital cellular telephone systems, such as the Global System for Mobiles services in Europe which have just started up, should be even simpler, faster and more reliable.

The GSM specification includes a facility which will eventually allow any terminal - for example, a portable facsimile machine or a notebook computer - to be plugged directly into the handset.

Another option for those customers who want the

benefits of both voice and data communications from a moving vehicle is to use a two-way public access mobile radio service such as the UK's National Band Three. Users buy their own communications equipment and then pay a fixed monthly subscription - there are no call charges.

Nevertheless, for those mobile computer users who require a high speed, high quality wireless data link, dedicated packet-switched data networks such as Ardis - a joint venture between IBM and Motorola - and Ram Broadcasting in the US, Ram Mobile Data in the UK and Deutsche Bundespost Telekom's Dater-P argue that they offer a more

efficient service.

This new breed of dedicated data telecommunications networks has been spawned by the wave of liberalisation sweeping through telecommunications regimes in the US, Europe and elsewhere, and it already looks like being fiercely competitive.

In the US market, aside from Ardis and Ram Broadcasting, AT&T's cellular subsidiary, McCaw Cellular Communications, is upgrading its network to carry packet-switched data communications and expects to cover more than 100 cities by the end of this year.

The McCaw network is expected to be used for wireless data communications by personal digital assistants manufactured by EO, another AT&T subsidiary, which is building PDAs in competition with Apple's Newton.

In the UK five companies were originally awarded

25-year mobile data network licences in October 1991.

However, after a shake-out there are now three mobile data network operators, Cognito and Ram Mobile Data, a joint venture involving US-based Ram Broadcasting and BellSouth, France Telecom, Swedish Telecom and Bouygues, and Paknet which is now owned by Vodafone and was awarded a mobile licence in addition to its existing fixed data licence.

Although subscriber growth has been slower than many analysts expected, Mr John Jarvis, Ram Mobile Data's chief executive, says he met his forecasts last year.

Ram is attempting to attract new business customers by taking a lead in developing applications software for the mobile data market - viewed by many as the key to future growth. "We have about 40 applications of one sort or another," says Mr Jarvis, of

which about a dozen are finished.

Ram also believes that its use of Ericsson's Mobitex network hardware, which is beginning to emerge as a *de facto* standard in Europe, will help attract a growing number of multinational business customers and should eventually enable its subscribers to "roam" throughout Europe as well as generating economies of scale.

The cost of radio modems for network use has already fallen to about £300 each when purchased in volume, several hundred pounds cheaper than just eight months ago. Thus, even though mobile data has had a sluggish start, most analysts still expect dramatic growth in the market over the next five years - fuelled largely by the growth in mobile computing and the next generation of PDAs.

Paul Taylor

SCREEN TECHNOLOGIES

Too soon to write off the cathode ray tube

When the first "luggable" portable computers began to appear a decade ago, many used miniature mono-cathode ray tubes for their displays - mimicking their early desktop counterparts.

But CRTs, although cheap, were heavy and power-hungry. They were quickly replaced by the thin, flat liquid crystal displays which have helped define the clam-shell design of the notebook computer and are now appearing in the next generation of pen-based computers and personal digital assistants.

From their discovery more than a century ago liquid crystals, which share the properties of both liquids and solids, remained a laboratory curiosity until 1963 when RCA, the US broadcasting company, found that by applying an electrical charge, the liquid crystal molecules could be made to resign so that they either passed, or blocked, polarised light.

Another decade passed before Sharp, the Japanese consumer electronics group, sold the first calculator with a liquid crystal display. Since then, LCDs have appeared in a wide range of consumer electronics including portable computers.

The majority of portable PCs sold since the mid-1980s have come equipped with LCDs in various guises, first in mono form but increasingly in colour - driven by the success of software like Microsoft's Windows.

The most basic early machines had relatively simple "passive matrix" LCDs based on twisted nematic (TN) technology. That was fine for small screens, but as the display size increases, the contrast between dark and light areas declines.

One solution to this problem has been to increase the twisting effect and thereby increase contrast. Thus manufacturers have developed "super twisted" nematic displays (STN), "double super twisted" nematic (DSTN) displays in which two STN cells are used and even "triple super twisted" nematic (TSTN) displays which use a retracting polymer film applied to the STN cell, allowing thinner displays with higher contrast.

Another increasingly popular option which improves the quality of lower-price passive colour screens is "double scanning". A double scan LCD updates the image twice as fast as the normal rate for passive LCDs, generating deeper colours and brighter images.

But despite these improvements, "passive" LCD technology still has some shortcomings. Among these, the contrast is still insufficient to reproduce the full range of

colours available with a conventional CRT, and passive LCDs have relatively slow response times which mean that moving images tend to blur and leave shadows.

These limitations are overcome in another form of LCD by using "active matrix" thin film transistor (TFT) technology which boosts contrast and response time by adding a transistor "switch" to each LCD cell or "pixel". Most of the colour notebook computers sold today feature active-matrix TFT displays produced in Japan by a small group of manufacturers.

Liquid crystals remained a laboratory curiosity till it was found, by applying an electrical charge, that the molecules could be realigned to pass or block polarised light

However, building 10-inch active-matrix TFT display is an extremely complex and costly process involving over 100 steps spread out over a period of four weeks. Active-matrix screen consists of 10 to 15 layers of material and involves etching around 4m components.

A single dust particle can wreck a whole display and analysts suggest that, despite precautions, more than half the manufactured display panels have to be rejected because of flaws. But as manufacturing yields improve and more Japanese manufacturing plants come on stream, the price of active-matrix TFT screens is beginning to fall.

Two other flat screen technologies, gas plasma and electroluminescence, are also in use. Unlike LCDs, which need back or side lighting, gas plasma screens generate their own light. In addition, response times are fast and the price of gas plasma portables is lower than that of active matrix systems. Electroluminescence screens are also fast, can support very high resolutions and are cheaper than TFT displays, but they tend to be power-hungry.

Display manufacturers have therefore been investigating other new technologies including ferro-electric LCDs and metal-insulator-metal screens. In MIM displays, a layer of insulator is sandwiched between two layers of metal. They provide high contrast and may eventually be cheaper than TFT machines. However, mass production techniques for MIM displays have yet to be devised.

Some industry analysts and manufacturers believe that in the longer term ferro-electric LCDs, pioneered by CRL, part of the British Thorn-EMI group, and Canon in Japan, offer the most promise. FLCs use a different type of liquid crystal which reacts more quickly and, most importantly, is bi-stable. This means that once a pixel is switched on (or off) it stays like that until it receives another signal.

As a result, they do not need continuous power to maintain an image and, because only those parts of the screen that have changed need to be updated, battery life is increased by 20 times or more. FLCs are also lighter, brighter, have a wider viewing angle and are cheaper than TFT screens.

But they do have some disadvantages. In particular, today's ferro-electric displays do not produce as wide a range of grey tones as active-matrix LCDs. Even more critically, ferro-electric crystals are sensitive to shock which has made it difficult to develop a practical FLC, although CRL and Canon claim to have overcome this problem.

Despite all these new developments, it may be too soon to write off the old cathode ray tube. For example, last year Matsushita Electric Industrial announced that it had managed to do away with both the conventional guns and the magnetic coils that make current CRT tubes so deep. The result is a flat CRT screen less than four inches thick. Such technology could potentially lead to the re-introduction of the cathode ray tube into the portable computer market.

Paul Taylor

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MobileMax

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Turn to page 6

Dennis Normile on prospects in Asia and its biggest market, Japan

It's not so easy as ABC

That the country which took the lead in making electronic devices portable should have also led the way with portable computers is not surprising. Seiko Epson claims to have been the first company to put a transportable computer on the market with its liquid crystal display in 1982. Toshiba defined the laptop class with its T1100 series, released in 1989, and was also ahead of the field in making computing truly mobile with the Dynabook, the first notebook computer, in 1989.

Japanese companies are still virtually the only suppliers of a key component that makes mobile computers mobile: liquid crystal displays. And these days, the only computers exported from Japan are portable models.

Japan is also far and away Asia's largest single computer market. Sales of personal computers in Japan rose steadily through the 1980s, but have been stagnant for the past three years at about 2.2m units a year, of which about 40 per cent are laptops and notebooks.

Apart from Japan, reliable figures on the Asian mobile computer market are hard to come by. Dataquest Japan, the market research company, estimates the combined volume of Korea, Hong Kong, Taiwan and Singapore at roughly equal to Japan's market, but puts the share of mobile computers at far less, at around 10 per cent.

Analysts forecast a resumption of growth in Japan's PC market this year, expanding to 3m units or more a year by 1995. Japan has the world's highest ratio of portables and remains Asia's most important mobile computing market.

Japan's affinity for portables, however, is not based on their mobility but on their size. In Japan - and to some extent in Korea - notebook computers are not used for computing on the go, but in place of desktop systems. They take up less space in cramped offices than their bulky, full-sized cousins. And therein lies the nub of differing views over future directions of Japan's market.

According to Dataquest, although volume has been stagnant, the value of the market has crept up. A price war initiated in Japan by Compaq of the US has cut prices to half or less what they were just two years ago. But rather than go downmarket, buyers have been tempted to stretch their budgets, buying computers with faster processors, more memory and bigger hard disks.

Mr Katsushi Shiga, a Dataquest analyst, sees this trend carrying over to the notebook market. In particular, as colour liquid crystal displays become more affordable, he expects notebooks with colour displays to replace desktop systems for applications needing colour. He says this could help boost the notebook segment to 60 per cent of a growing market.

A contrary view comes from Mr Makio Inui, a Kleinwort Benson International analyst. He also sees an upturn in personal computer sales beginning this year, based on rising demand from corporate users, who account for some 70 per cent of the market. But he believes purchasing managers in Japan will be under pressure to get as much computing power as they can for as few yen.

This, Mr Inui concludes, favours the more economical

desktop systems, and he sees a fall in the share of the market held by notebook computers. While the majority of mobile computers in Japan move no further than from one corner of a desk to another, the electronic organisers that slip into a jacket pocket get carried around. These are seen as the forerunners of the personal digital assistants now coming onto the market.

The new devices, relying on pen-input, will be a boon in Asian countries, such as Japan, which use Chinese characters for the written language. One reason that computers - mobile or otherwise - are rarely used by senior Japanese executives is that they never learned to type. There were mechanical analogues to western typewriters for Chinese characters, but they were unwieldy and difficult to use.

The younger generation has grown up using word processors and computers, but their elders are afflicted with "key-board allergy". But the same Chinese characters that would make pen-input devices particularly useful make them extremely difficult to realise. The algorithms that are slow and error-prone in recognising

the 26 letters of the English alphabet have a more daunting task in trying to identify the roughly 2,000 characters used in Japanese newspapers.

Pen-input machines and software with acceptable speed and accuracy are likely to emerge later in Asia than in the US and Europe. This means that except for a number of specialised niches, the size of the keyboard is still likely to limit the extent to which machines for serious mobile computing can shrink, even more so in Asia than in America and Europe.

The pen-input personal digital assistants are likely to find a niche in Asia as specialised tools. They might be used, for example, to tick off deliveries on an electronic form. For more general use, PDAs may prove their worth for checking electronic mail and as sophisticated paging devices.

Mr Inui sees the ability to send 10 to 20 lines of text to roving sales staff and travelling executives as creating a niche for PDAs equipped with receivers. But the growth of this market will require the blessing of telecommunications authorities, which he sees as slow in coming in Japan.

Few contrasts are more stark in the mobile computing market than the 1993 fortunes of Dell Computer and Zenith Data Systems. While Dell had to recall its systems and withdraw from the notebook market after poor sales, Zenith rebounded after a lean period to claim sales gains in North America last year of 36 per cent.

Dell's misfortunes began with the release of its lightweight 320SLi notebook computer - which aimed to combine long battery life with a low price. The design, however, did not hold up well to the rigours of portable computing. Users complained about "easy to lose" rubber covers over expansion ports, the lack of a backlit screen (a feature designed to save battery power) and overheating when in use for an extended period.

The overheating was so serious that Dell had to recall the systems. However, the Texan computer maker says that it is committed to introducing new notebook and subnotebook computers this year - and recently hired Mr John Medica, a former Apple Computer executive, as a vice-president.

Mr Medica was instrumental in the design contracting of Apple's successful PowerBook range of mobile computers - developed in conjunction with Sony of Japan.

US analysts already predict that Mr Medica will seek Sony's help in the design of new Dell products - and that these will be subnotebook systems with both colour and monochrome displays. Sharp is expected to supply the colour screens for these systems, which may be launched in the second half of this year.

In the meantime, Dell is likely to unveil a range of "interim" mobile computing systems that will be the result of Original Equipment Manufacturer agreements currently under negotiation with portable computer maker AST Research. These machines will probably be based on AST's

Clive Thompson is a software engineer at British Telecom's Martlesham Heath research centre in Suffolk. He designs complex software systems to manage international data and telecom networks. This is not work that fits on a standard desktop PC. The prime tool of such software developers is the high performance workstation, characterised by the Sun computer. Running the Unix operating system, these machines give engineers the power to twist and test intricate patterns of figures - the number-crunching of computer lore.

The dilemma for Mr Thompson is that his clients are BT senior managers, spread about the country. They are not always found next to a Sun workstation. Without that facility, it is impossible to demonstrate the latest step in network software. BT had to find a way to pick up a workstation and carry the demonstration around.

The answer was a portable computer produced by Cambridge-based Tadpole Technology. Tadpole set out to fit a Unix-friendly chip into a small portable frame and came up with the Sparcbook. Sparc refers to the Unix chip developed by Sun and now in the domain of the Sparc International group, an industry combine including AT&T. Tadpole began to deliver the Sparcbook in 1992, marketed as the ultimate in notebook sized PCs.

Tadpole faces big rival

The Sparcbook is not a cheap toy. Entry level machines cost £4,300, with more powerful models selling for up to £13,475. But it was the only option for BT staff who needed to transport and display sophisticated software. Using a network was not realistic, since Unix workstations would still be required to receive and run the program. Nor would carrying the software on disk, to be loaded up before each demonstration, work. "You can't simply load and go as you would with a standard package," Mr Thompson says. "If I did that, I'd spend more time configuring it than carrying out the demonstration."

While BT is impressed with the Sparcbook, Mr David Thurgate, a technical analyst with Barclays Network Services, has reservations. Mr Thurgate tried to find a way of heaving a large Unix database about to keep executives up to speed outside normal office hours. The Sparcbook constituted "a bit of a desperate solution". Though the second, current, release of the product is an improvement, Sparcbook One was unable to emulate the graphics of the Sun workstation.

"The screen handling was not that good. It was a slow display connected to a fast computer."

In the event, Mr Thurgate decided that Unix in a briefcase was not right for executives hooked to this database. However, his software developers may have a use for the Sparcbook. "We're not talking about people using it on a train. You'd use it to carry the database around and plug it into a fixed screen." The high price of the Sparcbook was not a factor, however. Mr Thurgate believes that for highly technical applications the price tag is irrelevant.

Tadpole has enjoyed a prominent role in bringing Unix out on the streets. But its comparative success, turning over £23m in 1993, has attracted competition. IBM will launch a Unix portable shortly. This will be aimed at customers of its RS6000 Unix machines who need to bring their software home at night. It will be based around the Power PC chip developed out of an alliance with Apple and Motorola.

In its new and humbler incarnation, IBM admits to technical alliances with other suppliers. And the post-re-

structuring culture seems to have produced unaccompanied generosity among IBM executives. Mr John Barnes, IBM RS6000 product manager, praises Tadpole's contribution in opening up a niche market. "There's a market for Unix portables because Tadpole has established it." Perhaps that explains IBM's ambitions for its own Power Unix portable PC.

IBM believes that enough people need the specialised strengths of Unix on the move and are willing to pay for the privilege. The substantial cost of this equipment has drawbacks for more than the company accountant. Theft is a major worry. But the institution that needs this capability tends to have deep pockets.

Mr Michael Bentley, a systems administrator at merchant bank Merrill Lynch, is a Sparcbook user. The bank's staff has a nomadic existence and relies on Unix. "Offshore Debt bought four, for around £3,000 apiece." It is estimated about small portable computers that approach the price of a company car? "If we lose one, we write it off."

Michael Dempsey

Geoff Wheelwright looks at contrasting market fortunes

Dell dips as Zenith zooms

Bravo range of notebook systems.

While Dell has been suffering, laptop PC pioneer Zenith Data Systems (now a subsidiary of Paris-based Groupe Bull) has been growing about its recent rebound in the notebook computer market. The company claims to have shipped more than 150,000 portable computer systems to North America alone last year - almost twice its volume in 1992.

At the heart of this success has been the company's Z-Lite subnotebook computer range, which has earned high marks from reviewers for its long battery life, comparatively low price and expansion options.

According to Mr Alan Soucy, vice-president of the ZDS mobile systems division, one key to the company's current philosophy about mobile systems is that docking sta-

tions - the add-on boxes that portable computer makers have traditionally used to provide desktop expansion power for their systems - have no place in the market any more.

Instead, Zenith is offering PCMCIA-compatible expansion slots on all its subnotebook computer products - and at less than \$1,000, a new "personal server" designed to offer desktop functions to portable PC users in a more flexible way.

The personal server features Ethernet network connections to portables. It is about the size of toaster, yet offers room for lots of storage, as well as hard-to-add devices such as a CD-ROM player. In addition, several portable computer users can connect to the personal server at once.

Mr Soucy says that docking sta-

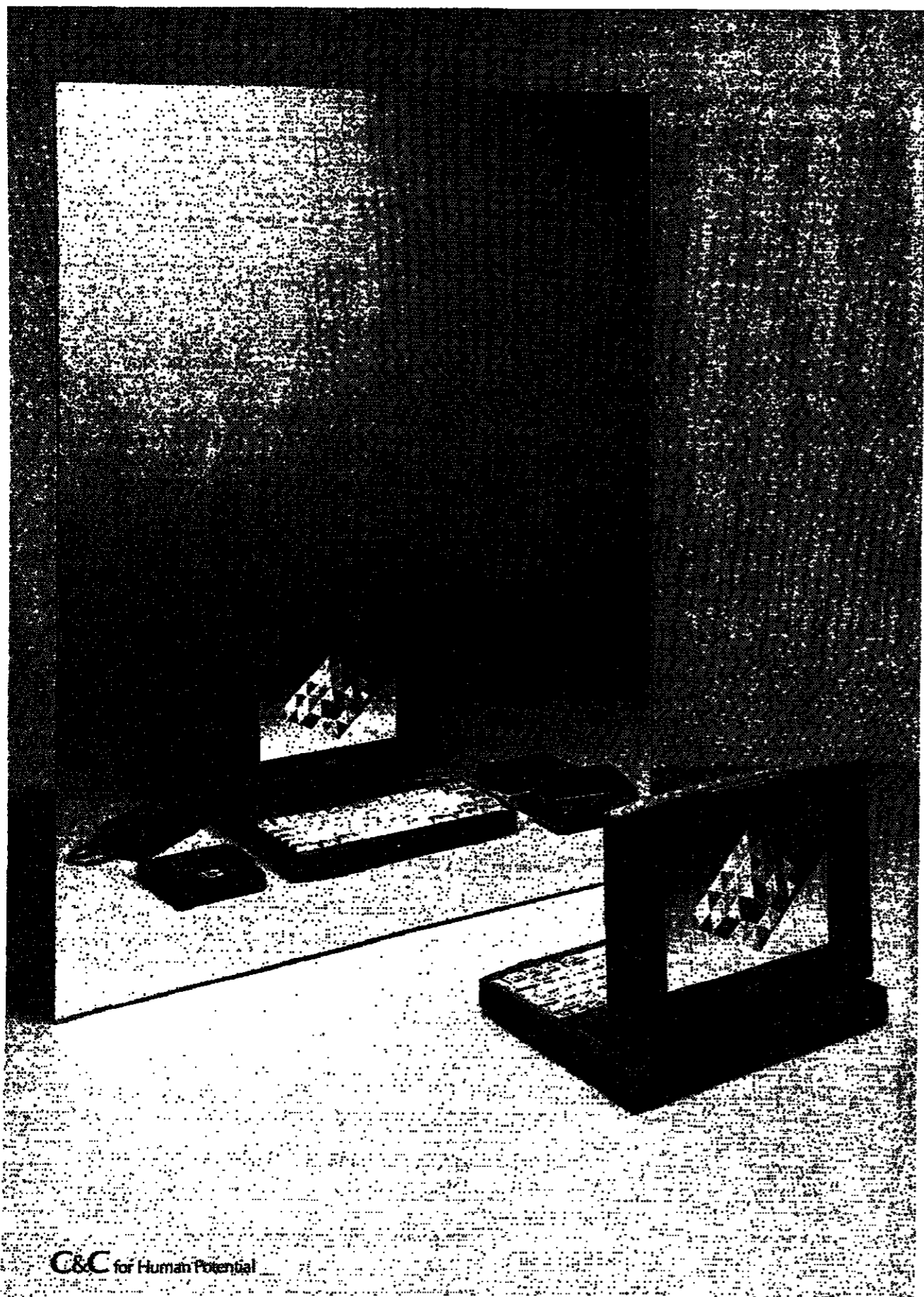
one user can connect at any one time, that the connection be made with an often-clumsy, multiple pin - and that users buy a new docking station every time they get a new model or brand of portable computer.

The other big push for ZDS in 1994 will be in the personal digital assistant market. Three products will be launched in the current calendar year - one for wireless local area network connection to PCs, another with embedded wide area communications capabilities and the third designed more along industry-standard lines.

It is expected that the first two of these systems will be more "personal communicator" products than full-blown handheld computers - while the third is likely to be based on a variation of the Microsoft at Work architecture and to use an Intel microprocessor. All systems will offer pen-based input.

ZDS will price at least one of the systems at around \$500 to make high volume inroads into the market, responding to price criticism at the high prices of Apple's Newton and the Tandy/Casco Zoomer.

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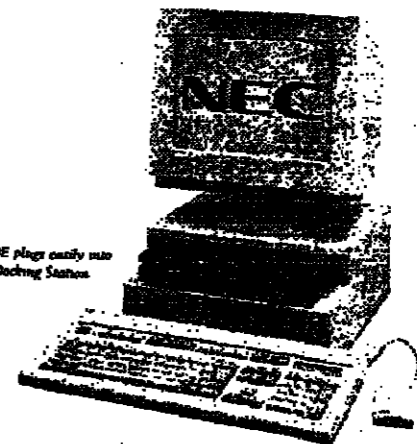
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MobileM

Geof Wheelwright looks at developments in the US

Banner ideas are brought to life

1993 will be remembered as a banner year for mobile computing in North America. It was the year in which a whole range of technology trends turned into real products that users could hold in their hands.

Technologies such as hand-writing recognition, pen-based control, radio-based data communications, cellular data and fax communications, remote PC and database access and fast, low-power computer processors made new mobile computing applications possible - and were at the heart of a number of new mobile personal computers.

These included Apple's Newton - which makes heavy, although not always accurate, use of hand-writing recognition technology - and the Tandy/Casio Zoomer. This new category of pocket-sized mobile computer has been dubbed the personal digital assistant and has already achieved something of a cache as a "must-have" for those few yuppies who survived the 1990s.

Apple's biggest push on Newton recently has been with new functions. Although it has been on the market for several months - and sold more than 50,000 units - Newton has

suffered from a lack of add-ons to connect it to desktop computers.

The answer to this problem came at the autumn Comdex show in Las Vegas in the form of Apple's Newton Connection kit for Windows - which allows Newton to exchange information with Windows-equipped IBM-compatible personal computers. The kit was co-developed with Washington-based Travelling Software - makers of the popular LapLink software for linking laptop and desktop computers.

In addition, Apple finally started shipping its long-awaited \$220 Newton FaxModem card with 2400 baud communications speed and Group III fax compatibility. The company also co-developed this product - this time with communications specialists Megahertz - and offers it on a PCMCIA (Personal Computer Memory Card Industry Association) Type II card.

It is also clear that Apple - and arch-rivals Tandy and Casio - will not be the only companies in the PDA market for much longer. Canadian computer-maker Darius, one of the first third-party firms to use DEC's powerful Alpha chip in a desktop computer, has

announced plans to develop a low-cost, high-powered PDA.

Meanwhile, AST recently announced full details of a 1lb "Zoomer-style" PDA, using technology it acquired from Tandy's Grid computer operations when it took over some of Tandy's computer business last year. Currently known as Model 2390, it will use the same processing chip and Geos operating system as the recently-released Tandy while offering the Grid Pen-Right pen computer operating system as an option. Price is expected to be less than \$1,000.

California-based SunDisk has developed a 40 Mb "flash" memory card that will fit in most PCMCIA II slots and interest all PDA and notebook computer users. While several hard disks in this size have been developed (including one from SunDisk), it is the first solid-state memory card with this capacity. It should start shipping by next spring at \$1,995 - although that price is expected to drop as demand and volume increase.

Newton and Zoomer both include personal productivity applications (such as diary, notepad and address book) and have spawned a number of add-on products that allow

them to do everything from sending faxes remotely via a cellular telephone to acting as high-tech pagers.

Even bigger developments are expected next year in this sector as Microsoft and a group of its hardware partners release handheld computer products based on a design standard known as "WinPad". Such products will use a cut-down version of Microsoft's popular Windows software, a proprietary set of low-power computer chips designed by leading chipmaker Intel and will offer pen-based control of the system.

Like the Newton and Zoomer, WinPad systems will also provide limited hand-writing recognition and a standard set of personal productivity applications. Manufacturers currently committed to the development of these WinPad devices include Compaq, Toshiba, Motorola, NCR and Epson.

Not all handheld computers have been designed for use with pen systems. In fact, one of the more popular digital assistants in the US is not even produced there - nor in Japan, for that matter. The Psion Series 3a handheld computer is produced in the UK by Psion, the handheld computer maker. Psion has been successful in

developing distribution for the Series 3 range in the US since launching the original system three years ago - and the new Series 3a system is now available in fashionable US technology shops such as The Sharper Image. The Series 3a features its own built-in word-processor, spreadsheet, project management planner and speech recording features - and sells for less than \$600.

But not all US mobile computing development is in the handheld computing sector. There is still a great deal of activity in subnotebooks, notebooks and even luggable computers.

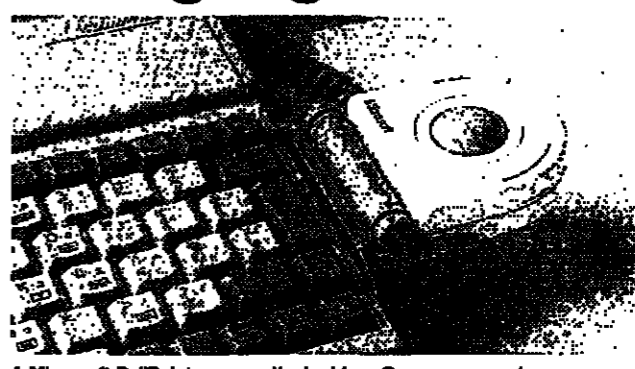
At last autumn's Comdex, for example, one of the most notable new systems came from luggable computer manufacturer Dolch Computers Systems, which offers the world's first Pentium-based portable computer. It also happens to be the first computer of this size to use liquid-cooling to reduce the heat generated by the Pentium processor. A small fluorocarbon liquid pack is placed on top of the chip to absorb the much-publicised heat of the Pentium to a "heat sink" system that evenly dissipates it throughout the system.

It will be released in two versions - the PAC-586 and the A-PAC. The first is a straightforward, high-power, 20lb colour "lunchbox", mains-powered portable, while the second will add a CD-ROM drive, sound card, a microphone and stereo speakers to enable it to handle multimedia software. Prices will start at around \$6,000.

Another unusual portable computing plan comes from DEC - which is talking about using a planned low-power version of its powerful Alpha chip in both a laptop computer as well as a PDA. The company says it is also talking to people in the personal digital assistant business - raising the possibility of handheld, Apple Newton-style Alpha-based devices probably running some form of the Microsoft At Work software architecture. DEC hopes that such a move would give Alpha the broad-based, high-volume sales it needs to make it competitive with other offerings.

How IBM and Compaq are fighting back

US desktop leaders start to regain high ground



A Microsoft BallPoint mouse attached to a Compaq computer

Two of the traditional US leaders in desktop computing have made great strides in the mobile computing sector over the past 12 months. Compaq, which pioneered the portable PC market, and IBM, a company distinguished by many past portable failures, are finally achieving side-by-side success with their battery-operated ventures.

Compaq has aimed in the past year to regain the technological high ground from competitors such as Toshiba. In September, it launched its most innovative notebook computer to date: the Compaq Concerto. This system features an Intel 486SL processor (running at 25 or 33 Mhz), 4 Mb of RAM, 120 Mb hard disk, a detachable keyboard, the ability to accept commands and data input from keyboard, pen and mouse - and two expansion slots that conform to the PCMCIA (Personal Computer Memory Card Industry Association) standard.

Perhaps even more importantly, the system was priced at \$2,499 - with a docking station option for only \$200 more. The set of features combined with competitive pricing has helped Compaq to a significant mobile computer hardware market share.

Compaq has also announced plans to release its first subnotebook system early this year - and to bring out a "Mobile Companion" handheld system based on the WinPad technology developed jointly with Microsoft and Intel. Both should offer the Houston-based computer maker a chance to have an impact on markets that it has so far shunned, giving smaller competitors such as Tandy, Gateway 2000 and IBM's Ambra division a chance to pioneer the demand for these systems.

The highest volume of these new systems is expected to be a 3.9lb sub-notebook version of the Compaq Contura - which is likely to offer battery life of up to five hours and sell for less than \$2,000. Like the Concerto, it will be based on the low-power Intel 486SL processor.

It is easy to see why Compaq wants to get into the subnotebook market. According to US market research firm Workgroup Technologies, US shipments of subnotebook systems have demonstrated an annual compound growth rate of almost 87 per cent since 1992 and are expected to hit the 2m mark this year. With average prices of between \$1,500 and \$2,000 a unit, that suggests that subnotebook systems will form a market worth between \$1.5bn and \$2bn in the US alone this year.

IBM, meanwhile, has already made an impact on this growing subnotebook sector with its ThinkPad range of systems. The basic ThinkPad 500 weighs only 3.8lb, comes with a 25 or 50 Mhz 486SLC2 processor, promises battery life of up to six hours and sells for less than \$2,000.

Despite critical praise and high demand for this system, IBM reported late last year that the ThinkPad 500 was initially plagued by production difficulties and was now suffering battery problems - and also that, as a result, production of the machines would be halted temporarily. Production of ThinkPad systems has now restarted, with IBM hoping that, meanwhile, it has not lost too much momentum in the market.

At the other end of the mobile computer market, IBM has another new ThinkPad - the 750C. This 6.3lb notebook system not only includes a crisp, 10.5 inch TFT active matrix colour LCD screen, 4

Mb of memory and a 170 Mb hard disk - but also features two PCMCIA Type II (or one PCMCIA Type III) expansion slots and built-in audio capabilities.

This allows the ThinkPad to run multimedia applications - although the lack of a CD-ROM player will limit the number of multimedia software packages that can actually be installed on it. IBM does, however, offer an optional external unit for connecting a CD-ROM player. The built-in sound system also allows voice messages to be recorded on the computer - so that it could double as a limited function portable dictating machine.

Pricing on the system is still high - though not out of line for a system with its features. At \$4,699, it is not destined to become a high-volume system, but it is winning critical praise.

The real point about the ThinkPad package computers is that they suggest, for the first time since IBM starting producing portable computers in 1985 (with the disastrous IBM PC Portable), that Big Blue is putting creative thought into their design. The fact that its portable computers are receiving favourable press compared to existing market leaders - and that IBM has largely abandoned the price structures that made its systems ridiculously expensive for many years - all point to future success for IBM in this market.

Geof Wheelwright

George Black spotlights areas of growth in Europe

Benefits of a digital network

The emergence of a Pan-European digital telephone network could give a big boost to the development of mobile computing in the next few years.

This is predicted by Mr Jeff Goldberg, industry analyst at market research company Dataquest. GSM, or Groupe Speciale Mobile, is the digital network which is beginning to replace the established analogue telephone networks across Europe.

Mr Goldberg sees GSM as a major strategic advantage for Europe which will make it much easier and cheaper to provide network data services to mobile computer users. By 1996, GSM modems which enable telephones to be easily used in any European country will stimulate a boom in mobile computers of all kinds, he says.

The main area of growth will probably be a new generation of devices which combine the features of the current personal organisers or personal digital assistants (PDAs) with those of the cellular phone. Much will depend on how European governments react to the opportunity. The UK is well placed to derive substantial commercial advantages because of its relatively free telecommunications environment.

Most other European countries have yet to decide whether to follow the UK into total deregulation or to use state power to subsidise the building of the necessary communications infrastructure.

The prospects for mobile computer vendors in the second half of the 1990s, whether selling notebooks, subnotebooks, laptops, palmtops, organisers or PDAs, look excellent.

Organisers and PDAs, though generating a lot of public interest, are still a very small market sector. Only around 400,000 were sold across Europe in 1993, compared with about 1.6m notebook computers, which cost roughly 10 times as much. But the spread of GSM could turn organisers into a much more significant market.

The UK has a good start in this field. Its 34 per cent of the European market for organisers represents by far the largest share. This is largely attributable to the strength of Psion in its domestic market

and the fact that the British are traditionally keen on gadgets of all kinds.

But whether Psion will be able to capitalise on this success across Europe is uncertain. The German and French markets are dominated by Sharp, though it has lost market share to Psion recently.

Meanwhile competition is rapidly intensifying. General Magic, the US developer spun off from Apple, has just launched its Magic Cap system. This is described as graphical user interface software which can provide the basis for a range of palm-top or personal organiser applications, using wired or wireless messaging facilities. Shareholders in General Magic include Apple, AT&T, Motorola, Philips, Sony and Matsushita.

Another serious threat to Psion's position will come from Compaq and Microsoft, which are collaborating to launch a multi-function pen-based device, presently known as WinPad. This will take the leading notebook vendor and the leading personal computer software company together into a new and potentially very lucrative field.

Compaq has been the leader in notebook computers in most European countries in the past year. The market is much more uniform across Europe than that for organisers, enabling Compaq to benefit from a strong marketing campaign, improved technology and lower prices.

It has leapt ahead of its main rival, Toshiba, across Europe to take around 20 per cent of the market compared to Toshiba's 14 per cent.

The German market has been enlarged by the entry of retail chains, such as Vobis and Excom, selling their own low-priced machines. According to Mr Stephan Heinrich, product marketing manager for leading international distributor Computer 2000, until a year ago only large companies in Germany bought notebooks, mainly for their sales forces.

Now the market is beginning to spread to private users, he says. For this reason Compaq has recently followed the retailers in advertising its notebooks on German television.

The French notebook market grew by 30 per cent last year, according to Mr Maurice Brakha, managing director, France, distributor Merisel, compared to 12 per cent for the personal computer business as a whole.

Mr Brakha says that sales were boosted by new models with larger memories, better graphics and longer-lasting batteries. "Mobile users need these things because for them these are tools, not toys," he explains.

Italy is the exception to the rule. Olivetti, Europe's only major indigenous notebook manufacturer, remains dominant there because of the word-of-mouth market, which is not susceptible to the marketing techniques of other European countries. The UK, France and Germany may therefore prove easier nuts to crack for mobile computer vendors.

1994 is likely to see a rather more marked shift of purchases from desktop machines to portables across Europe. The UK will probably be the best immediate prospect for vendors of both notebooks and organisers, as France and Germany are set to remain locked in recession for at least the next few months.

Next year and 1996 should see more rapid growth. The biggest opportunity is in Germany, but the market for organisers remains very small. Most Germans remain very critical of these machines. Apple's Newton had some poor reviews in Germany, in which it was dismissed as a toy.

Sales of organisers in France have also been slow so far. The Apple Newton has not yet reached the French shops, but it may do better in France than Germany, as Apple's desktop and notebook machines have proved very popular there and the French have shown great enthusiasm for graphical user interfaces.

If the Germans and the French can be persuaded to buy organisers, Sharp looks the most likely winner, with Apple benefiting from its success. Sharp's own organiser incorporates some Apple technology and it manufactures the Newton for Apple. Sharp also has joint ventures with several other technology developers.

plastic film as the electrolyte - a material that carries charge between the electrodes - instead of the liquid electrolyte used in today's batteries.

LiPol's energy output per gramme is likely to be twice as good as Lion and six times better than NiCad. Another great advantage is that LiPol need not have the chunky shape of today's batteries. It can be produced equally well as flexible sheets less than a millimetre thick, which can be cut or folded into whatever size and configuration best suits the appliance in question.

Many laboratories around the world are working on LiPol. They include the Japanese giants such as Sony, Californian start-ups such as Valence Technology, and universities such as St Andrews in Scotland.

While computer manufacturers wait for a breakthrough in battery technology, they are constantly taking steps to make the most of the batteries that are available, by reducing the power consumption of their products. An obvious example is the memory card used instead of a disk drive in sub-notebook computers.

Software-based power management systems also help to extend battery life, by sending the computer to sleep when the user is doing something else for a few minutes and then allowing him or her to resume at exactly the same point.

The chip-makers are playing their part too, by developing special low-power low-voltage processors such as the Intel 486SL for portable applications.

Clive Cookson

BATTERY TECHNOLOGY

The pace may accelerate

As mobile electronics races ahead, batteries are revealed ever more clearly as the Achilles heel of the portable computer. While processors, memories and even screens double in performance every two or three years, battery technology improves by perhaps 10 to 20 per cent over the same period.

Now that the electronics industry has come to realise quite what an obstacle batteries are to future progress, manufacturers are beginning to team up with battery companies to force the pace of development.

For example, Compaq recently announced a partnership with Duracell to develop standard-sized nickel-metal hydride rechargeable batteries for portable computers. But the integrated Japanese electronics companies, which manufacture

batteries as well as computers and other mobile devices, are emerging as a particularly strong source of innovation in this field.

There is a good prospect that the higher priority now being given to batteries will lead over the next five years to devices that pack much more energy into a smaller space than anything available today. Then manufacturers will be able to design "sub-notebook" sized computers with power-hungry features such as colour screens and built-in disk drives.

Most of the current generation of portable computers were designed to run on throw-away alkaline batteries or rechargeable nickel-cadmium (NiCad) packs. They can generally manage three to five hours of operation before needing to be recharged - not enough to

do much work on an intercontinental flight.

NiCad was developed originally in the 1950s and is now getting close to the limits of its potential performance. It is also environmentally suspect, since cadmium is a toxic metal which can contaminate groundwater if NiCad cells are dumped in unsuitable landfill sites.

The leading green contenders to replace NiCad are nickel-metal hydride (NiMH) and lithium ion (LiIon). Both originated in Japan and both are beginning to appear in upmarket portable computers. Last month, for example, IBM added NiMH to its ThinkPad sub-notebook computers, while Toshiba's T3400CT will be LiIon-powered.

Lion can pack more usable energy into a given weight of battery than NiMH, but it is a more sensitive material and less good at delivering the relatively high power required for a disk drive. Most observers expect both technologies to enjoy a good run at the expense of NiCad over the next few years, though the long-term future probably lies with lithium-based systems. (For electrochemical reasons, lithium is theoretically the best metal of all to use in batteries.) At the research stage, a particularly exciting prospect is the lithium polymer (LiPol) battery. This contains a solid

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There are five NB-400 hard disk modules, for example, ranging from 80MB to a massive 450MB. These can also be used with conventional desktop PCs. A communications cable comes as standard for loading applications or trading data with other PCs. An external 3 1/2" disk drive is also available as an option.

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Full details on page 6

Joia Shillingford looks at docking stations and the alternatives

Doing without a compromise

Mobile computing usually involves compromise. Either you sacrifice some of the features of your desktop PC or you buy a large portable computer so heavy that you need a Sherpa to carry it. Such computers are euphemistically known as transportables - computer speak for hard to transport.

Not surprisingly, the market for transportables is dwindling. Market researchers Dataquest say that in 1991 and 1992, 8,000 transportables were sold a year in Europe compared with about 6,000 in 1993. Mr Christopher Fell, associate director of Dataquest's European PC group, says that only a few suppliers still make transportables (including IBM and Compaq) and the machines are used mainly for very power-intensive scientific, technical or financial applications which involve number-crunching or high-resolution graphics.

□ Docking stations. Most users do not need this level of power when they are on the move. But they do need extra features when they are in the office (such as large screens or links to printers and networks). One solution which involves very little compromise is to use a notebook computer in conjunction with a "docking station". This looks like a central processing unit for a standard desktop PC but contains a slot into which you insert your portable.

Mr Lewis Schrock, PC group manager at Compaq UK, says: "Using a docking station is as easy as slotting a videocassette into a VCR. Slide in the notebook and it works. There are no cables to connect." The docking station is plugged into the office power supply and

computer network, so the notebook becomes in effect a desktop PC.

Docking stations are available from most major PC suppliers including Apple, IBM, Toshiba and Compaq. They have a number of advantages: □ Convenience. Files do not have to be copied from portable to desktop machine using disks (which may be of different sizes or densities) or communications cables. They are stored on the notebook computer's hard disk and can be accessed on the move or when the notebook is in the docking station. Similarly, applications software such as word processing does not have to be copied onto two PCs.

□ Features. Large colour displays and full-size keyboards can be permanently attached to most docking stations (a few models restrict the user to the notebook's own keyboard and screen). Docking stations also have built-in expansion slots and extra ports to give easy access to the company network and to peripherals such as a CD-ROM drive and a printer. And they can provide extra storage.

□ Ease of use. The docking station is an easy way of adding capabilities to a notebook PC when it is used in the office. Alternative methods often involve connecting lots of cables and reconfiguring system files every time you return from a business trip.

But docking stations also have a major drawback: cost. A docking station from Compaq has a recommended retail price of £420, while full-size monitors and keyboards are extra. This means that you need to spend an extra £500 to £600 to turn your notebook into a fully-fledged desktop PC.

Docking stations are usually designed to work with notebooks sold by the same supplier and the full kit (notebook plus docking station, keyboard etc.) could cost anything from £2,300 to £4,500.

This may be more expensive than two desktop PCs (one for home, one for the office), but it can be cheaper than buying a notebook and a desktop for each mobile user. Mr Stanley Monger-Godfrey, information technology director at P&O Properties, says the docking station approach will enable the company to equip far more of its staff with portable machines.

□ Cheaper options. For those who find docking stations too expensive, there are several alternatives. For example, several users who are out of the office a lot can share a docking station when they need access to printers and network.

It is also possible to buy slimmed-down docking stations. These are available from a number of suppliers including Olivetti, NEC, Compaq and Elonex, as part of a modular range of options for increasing the scope of notebooks. They are not as easy to use but can cost as little as £65 for a port duplicator - a bar containing extra ports which plugs into the back of a notebook PC and can be linked to office printers and peripherals.

Ms Alessandra Bianchini, of Olivetti's product group, says introducing expansion options has removed the need for "expensive and cumbersome" docking stations for its Philos line of notebooks. The options include: removable hard disks (which can be used with both office PC and notebook), a port duplicator, internal modem, and credit-card-sized expansion

slot conforming to the PCMCIA standard.

Despite the alternatives, the take-up of docking stations remains healthy if not spectacular. Compaq says 25 to 35 per cent of its high-end notebooks are sold with them. At Toshiba the figure is 30 to 40 per cent. IBM says it now sells docking stations with 50 per cent of its ThinkPad notebooks.

Mr Schrock believes that the main brake on growth is lack of awareness. "Very few people know how elegantly portable and desktop computing can be combined," he says.

Joia Shillingford is editor of the Financial Times Newsmagazine Business Computing Brief



The T4700CT is Toshiba's most advanced notebook to date, and combines power processing with multimedia capability

Notebook market

Continued from Page 1

the notebook market is "settling down", although he expects "very good growth" this year.

As it matures, some clear leaders have emerged in the notebook market while second-tier manufacturers face an increasingly tough battle. One of the most striking features revealed by Dataquest's quarterly figures over the past two years has been the resurgence of Compaq.

The US computer manufacturer has overtaken Toshiba to claim the No 1 vendor slot and has been building up significant lead - even though Toshiba has been expanding its market share. Dataquest's 1993 third quarter figures for Europe show Compaq with a

25.5 per cent of the market compared with Toshiba's 18.6 per cent.

Aside from the success of Compaq's Contours range of notebook computers, Mr Goldberg suggests the US group has benefited from the preference of corporate buyers in particular to source all their machines from the same supplier - something Toshiba, which lacks desktop machines from its product portfolio, cannot match.

Lower component prices and fierce competition have sent most notebook prices tumbling and have markedly reduced the price premium commanded by notebooks over their desktop counterparts.

Eighteen months ago, a typical notebook with an Intel 386 processor, 2Mb of Ram and a 60Mb hard disk cost around £2,000 in the UK. Now, a more powerful machine based on Intel's 486SX processor with 4Mb of Ram, an 80Mb hard disk and a trackball for mouse-style pointing under Microsoft Windows can be bought for less than £1,000.

Top-of-the-range models cost considerably more but these have state-of-the-art colour displays and other features such as PCMCIA card slots to connect modems for data communication.

Indeed, one of the main changes since 1992 identified by Dataquest's Mr Goldberg is the growing "stratification" of the notebook market. "People are buying at the top or bottom ends of product ranges," he notes. Corporate buyers in particular tend to buy top specified machines while individual buyers go for cheaper, more basic models.

Mr Lewis Schrock, Compaq's UK product marketing manager, argues that the growing fragmentation of the market "means you are going to see a wide range of machines targeted at different segments of



Canon's B22 Bubble Jet Notebook, launched last year, features a two-button trackball mouse to eliminate the need for a flat surface

the market". In particular, he believes manufacturers will produce broad "families" of products built around a modular design, or emphasise "different prioritised feature sets" such as usability, ease of mobility or upgradability.

Some manufacturers including Elonex, AST and Olivetti are already producing highly modular and upgradable machines with interchangeable components for screens, processors and hard drives which they argue enable customers to keep up with future technologies and provide users who share machines with additional flexibility.

Other manufacturers have targeted specific machines at niche applications. For example, Toshiba's T6600C portable includes a CD-ROM drive, stereo speakers, detachable keyboard and other facilities to make multimedia presentations while travelling while Canon's B22 BJ notebook computer incorporates a built-in

jet printer.

Many notebook computers are second machines, used by people on the move who also have desktop machines in the office. But a growing number are being used as desktop replacements. Some manufacturers have taken this dual function concept a stage further, developing "docking stations". These enable the portable to take advantage of such facilities as full-size screens and keyboards and connect to an office local area network.

Another innovation in portable computing over the past couple of years has been the arrival of pen-based "notepad" systems. Some manufacturers have sought to combine the benefits of pen systems with the attractions of the conventional keyboard. For example, AST's Grid Convertible has both keyboard and penpad and Compaq has launched the Concerto, a high performance notebook with a detachable screen which doubles as a pen pad.

Alan Cane on the growing market for subnotebooks

For those on the move

The market for subnotebook computers, roughly the size of a sheet of A5 paper and weighing only a kilogramme or so, is rapidly becoming established.

Only a handful of manufacturers yet produce these miniature versions of conventional computers but industry standards for the sector are beginning to emerge and according to Mr Alan Rogers, portable products manager for Olivetti in the UK: "It is going to happen".

One indication that the subnotebook market is more than a flash in the pan is the fact that Hewlett-Packard of the US and Toshiba of Japan, a pioneer in mobile computing, have both produced subnotebooks.

The Toshiba machine was launched late last year. It weighs two kilogrammes and has up to 4.5 hours of battery life.

It is based on an 33 MHz Intel 486 microprocessor and has a thin film transistor (tft) high resolution colour screen. At £3,150, it is very expensive but it offers everything that larger machines are capable of in a compact package.

Olivetti of Italy was a pioneer in subnotebooks; its Quaderno, launched more than two years ago, was a classic of its kind. Small and light, it featured a non-backlit display and special software for writing notes, carrying out calculations and so on. Customers liked the concept and the design but found the screen difficult to read and the special software idiosyncratic. Nevertheless, according to Mr Rogers, Quaderno users frequently formed enthusiastic cliques.

The latest version, the Quaderno 33, is larger and heavier but features a backlit display and conventional PC software running Windows 3.1, Microsoft Works and Lotus Organizer, a novel program which displays through images of a traditional paper-based organiser on the computer screen. The new machines are powerful and well-featured, but have lost the idiosyncratic charm of the early Quadernos.

Tulip, the Dutch personal computer maker, also manufactures a subnotebook about the size of the Quaderno, which runs Windows and conventional office software. It is being used by MAI Research, the market research consultancy, to collect survey information. Each night the information is transmitted over the telephone lines to the company's central computer in London.

What distinguishes subnotebooks from personal digital assistants and other tiny gadgets is the fact that they are the smallest systems which can still be regarded as conventional personal computers. The screens are small, but display a

full 25 lines or more of text and graphics. Touch typists may complain about the keyboards but they have all the keys found on larger machines. Trackballs and mice are built in or can be released from a special cavity in the computer.

Mr Rogers has a separate definition. He believes that subnotebooks are portable enough to be carried whether or not they are going to be used - rather in the manner of a dictation machine or a camera. By comparison, anybody carrying a notebook intends to put it to use.

Another key to the emergence of subnotebooks is the range of peripherals which can be provided as standard PCMCIA cards. The size of a credit card and only slightly thicker, PCMCIA technology encompasses such devices as hard disk drives, fax modems and radio communications - all in a card just over 10mm

thick at most.

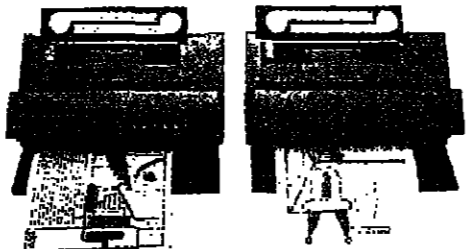
According to the US-based Gartner Group, which tracks technology trends: "We believe the PCMCIA standard will have the same impact on mobile computing in the 1990s that the AT bus did on desktop systems in the 1980s. That is, it will create a stable platform for system and third party vendors to develop a wide range of fully compatible peripherals, add-ons and software."

By 1997, Gartner says, some 60 per cent of all desktop, notebook and handheld systems shipped worldwide will have at least one PCMCIA slot - say, 40m systems.

As MAT's use of the Tulip device shows, business is not short of ideas for using subnotebooks. Within a few years, the notebook computer will be the system of choice for computing in the office; the subnotebook will be the machine for computing on the move.

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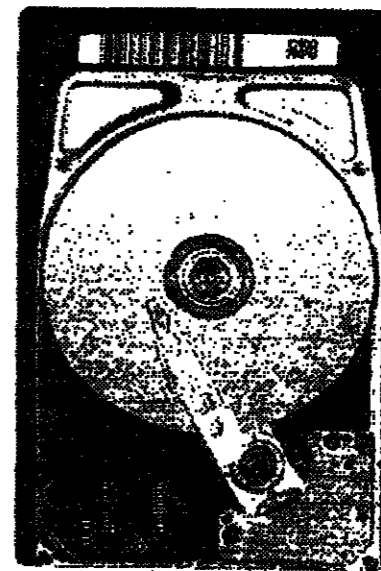
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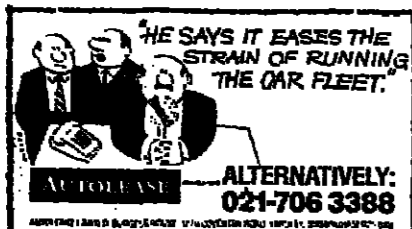
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IN BRIEF

Disney up with Aladdin's help

Strong US video sales of its cartoon film *Aladdin* helped Walt Disney to a 34 per cent rise in first-quarter net income. However, the company's results excluded its 49 per cent investment in EuroDisney, the loss-making theme park near Paris. Page 18

Banks oppose Banesto rescue plan
Spain's private banks are becoming increasingly opposed to making a large contribution to the rescue of Banco Espanol de Credito. The top five private banks have been asked to consider proposals drawn up by Banesto's management. Page 14

MCI and Bananac joint venture
MCI Communications, the US long-distance telecommunications group, is joining forces with and Grupo Financiero Banamex-Accival (Bananac), Mexico's largest financial group, to offer long distance telephone services in Mexico. Page 16

Too much expected of investments
UK companies are demanding too high a return on capital when considering investment projects, according to Mr Michael Hughes, managing director of economics and strategy at BZW, the securities house. He said companies had not adjusted to lower inflation rates. Page 16

Pakistani equities lose 10%
Pakistani equities were hit with large-scale losses in the three days ending on Monday, when the KSE index dropped by some 248 points, or 10 per cent, to 2,022.21. Commentators termed the losses a "technical correction", predicting that the market's three-month rally would regain its momentum. Page 38

LVMH shares up by Guinness deal
Shareholders in LVMH, the French luxury goods group, want to know why the company's shares dropped after it renegotiated its seven-year-old cross-shareholding agreement with Guinness, the UK drinks concern. Page 20

Photo-Me's French buy Photo-Me
International, the world's largest photo-booth manufacturer and operator, plans to pay \$35m for a French company KIS. Page 22

Results fail to knock down Domino
Domino Printing Sciences, the Cambridge-based manufacturer of continuous ink jet printer, reported full-year figures shy of expectations yesterday. But the bad news did not stop shares from rising rose 44p to 485p. Page 23

Shandwick back in black
Shandwick, one of the world's largest public relations companies, returned to the black in the year to October 31, with pre-tax profits of £4.8m compared with a loss of £2.5m. Page 23

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Chief price changes yesterday

FRANKFURT (DM)		LONDON (pence)	
Alcoa	100	Alcoa	40
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114
Alcoa	362	Alcoa	114

New York prices at 12.00		LONDON (pence)	
Alcoa	40	Alcoa	40
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114
Alcoa	114	Alcoa	114

IBM shares fall despite profit

By Louise Kehoe in San Francisco

IBM: the lean times

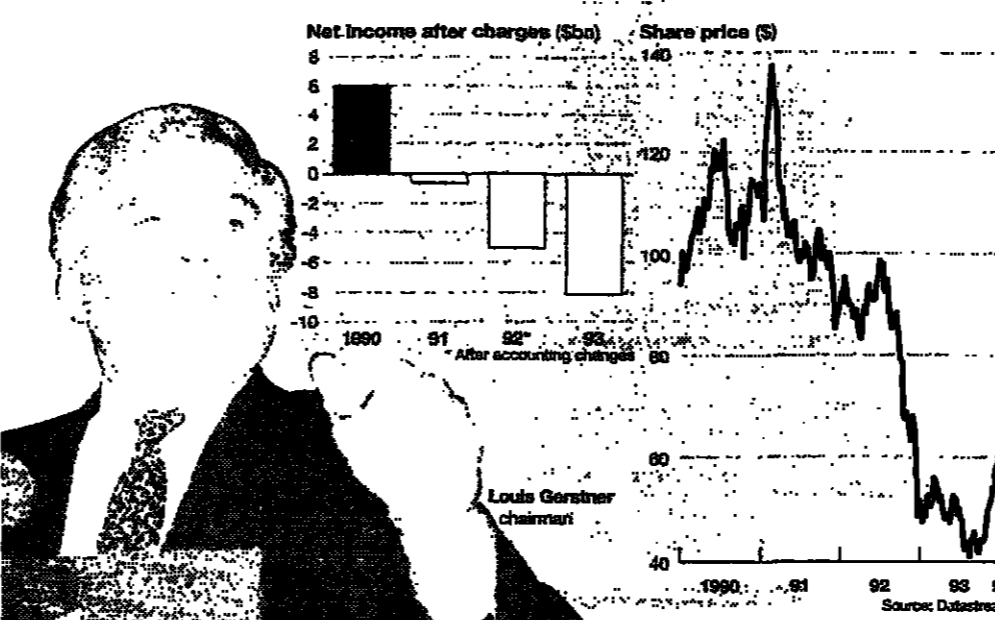
International Business Machines reported a small profit for its fourth quarter, after six consecutive quarters of losses. Yet with revenues and gross profit margins continuing to decline, the results provided little evidence of a turnaround by the world's largest computer company.

IBM's share price dropped sharply, trading at \$55.75 (€36.6) at midday in New York, down from Monday's close of \$58.75.

Fourth quarter earnings were \$32m, or 62 cents a share, in line with analysts' expectations. In the corresponding period IBM recorded a net loss of \$45m, or 8 cents a share, before pre-tax restructuring charges of \$7.2bn which increased net losses to \$5.5bn, or \$9.57 per share.

Revenues declined in the fourth quarter from \$19.6bn to \$19.4bn. However, computer hardware sales fell by 5.4 per cent to \$10.4bn. Revenue declines in software, maintenance and financing were offset by a 32 per cent increase on the service side, which rose to \$3.2bn.

US revenues rose by 9 per cent, continuing an upward trend. But in Europe and Asia there were



decreases of 1 and 4 per cent respectively.

Gross profit margins slipped by 1.1 percentage points to 38.2 per cent. IBM said margins on hardware sales improved but declined

in services, the one growth area, as well as software and maintenance.

Expenses were down 9 per cent, excluding restructuring charges but including interest

costs.

Research and development spending was cut by 20 per cent to \$1.5bn. Analysts said the results, although encouraging, did not

necessarily signal a recovery for IBM. The revenue decline was disappointing because IBM typically did about 30 per cent of its business in the last quarter.

"IBM was profitable in the fourth quarter despite tough business environments in Europe and Japan," said Mr Louis Gerstner, who joined as chairman and chief executive last April.

The company was making progress toward two goals: to return to profitability and develop a comprehensive set of business and technology strategies in each of its business units.

IBM said personal computer revenues rose strongly in the quarter and computer workstation sales increased. However, revenues from the flagship mainframe computers and related disk drive products declined, as did sales of its mid-range AS/400 computers.

For the year, IBM reported a net loss of \$8.1bn, or \$14.02 a share, after restructuring charges. Net losses for 1992 were \$5bn, or \$8.70, after an accounting change and restructuring charges. Revenues for the year declined from \$64.5bn to \$62.7bn, with non-US activities down 7.2 per cent at \$37bn.

Bock wins control of Lonrho board

By Robert Peston

Mr Dieter Bock yesterday won his most important victory in the battle against fellow chief executive Mr Tiny Rowland for control of the Lonrho board when the company announced that four of Mr Rowland's closest board room allies would retire.

The group also disclosed that profits from continuing operations had more than doubled in the year to September 30 from £33m (\$58.50m) to £79m. It confirmed, however, that there had been a £18m fall in the value of its two-thirds shareholding in Metropole Hotel Properties, which represents a reduction of more than 50 per cent on the value put on the business two years ago when Lonrho sold one-third of it to Libya.

As Mr Bock's victory was disclosed, Mr Rowland said the hostilities between the two of them had ended. "There are no differences between Mr Bock and me... We will be acting as one," Mr Rowland said. "I look forward to at least another two years of our working closely together."

Mr Rowland disclosed that Lonrho had recently considered

acquiring a shareholding of 15-18 per cent in the hotels and leisure group, Ladbroke. Mr Bock said they had decided against the move because such a minority stake would not have allowed them to exercise enough influence on Ladbroke.

However, he said Lonrho, having made a series of disposals last year, was now planning to make acquisitions - though more asset sales may still be made. One of the retiring directors is Mr Rene Leclercq, the chairman, who is 74 and has worked for Lonrho for 29 years. Mr Bock said that he would be replaced by a non-executive chairman, who might come from outside the group or from one of the three non-executive directors, Mr Stephen Walls, Mr Peter Harper and Sir John Leahy, recruited to the board at the end of last year.

Overall profit before taxation, including gains on disposals, was £172m, up from £144m. Earnings per share were 15.1p, up 135 per cent, and a final dividend of 3p was proposed, making 4p for the year, which is unchanged.

Observer, Page 13

GE lighting manufacture being moved to Hungary

By Nicholas Denton

General Electric of the US is moving the manufacture of lighting products to its Tungram subsidiary in Hungary from plants in western Europe.

Mr Jack Welch, the group's chairman said yesterday: "In the European manufacturing sense, Hungary will be our principal base. There is no question."

GE is closing down its plant producing incandescent light bulbs in Preston in the UK with the loss of 530 jobs and is in the process of transferring some of the machinery to Hungary.

The rationalisation is part of GE's merger of its own European lighting business with Tunggram and the lighting interests bought from Thorn-EMI in 1991.

The group is also winding down facilities in Wimbledon in the UK, and in Austria and Germany, and assigning output to its factories in Hungary.

While there have been several examples of German and Austrian manufacturers relocating production to eastern Europe to escape high costs, GE's shift is the clearest example involving



Jack Welch: 'Hungary will be our principal base'

the UK. GE is, however, maintaining its UK facilities at Enfield and Leicester.

The group's main competitors in the European lighting market have also sought out lower overheads in eastern Europe, with Philips, the Dutch electrical group, investing in Poland and Germany's Osram in the Czech Republic.

GE said it had centred in Nagykiszacs production of compact

fluorescent bulbs, the energy-efficient lighting source which is the fastest growing part of the market. GE announced plans to invest \$30m to \$50m a year in Tunggram.

Underlying GE's commitment to manufacturing in Hungary, which remains strong despite initial heavy losses, are sharp improvements in efficiency. GE said total productivity at Tunggram rose by 16 per cent in 1993.

"We are now well positioned with a productive, excited and empowered workforce that is going to be a major factor in the whole of Europe," said Mr Welch. Continuing productivity improvements, combined with an easing of the Budapest government's exchange rate policy, have allowed GE to hold relative labour costs steady for the first time since it entered eastern Europe.

The improvements in productivity are the key to GE Lighting Europe's efforts to match Osram's pre-tax operating margin this year and draw level with Philips in 1995. GE says it sees Hungary as more than a low-cost manufacturing site.

UK drugs group to cut 1,000 jobs

By Daniel Green

Fisons, the UK pharmaceuticals company, is to cut 1,000 jobs from a total of 6,400 as part of a restructuring programme aimed at restoring its fortunes after the sacking of its chief executive and a collapse in profits.

The two-year programme, costing £15m, will include partial closure of the company's main production site in Cheshire.

Mr Patrick Egan, chairman and acting chief executive, said some production would be transferred to France. There would be "senior management changes to create a flatter structure".

The restructuring is the first big decision from the company since it issued a profits warning on December 13 - the third in two years - which said it would only break even in 1993. City analysts had been expecting a pre-tax profit of about £100m. That day also marked the departure of Mr Cedric Scroggs as chief executive and Mr Roy Thomas as finance director.

The restructuring will save Fisons £35m a year in costs. It does not affect the other main division, scientific equipment. "There will be some contribution to the bottom line this year, but the full effect will not be seen until 1996," said Mr Egan.

He said there was "plenty of fat" to be cut in the company. "Along with other [pharmaceutical] companies, Fisons has not been concerned very much with costs. They've all had it so easy."

The job cuts come in all parts of the pharmaceutical business.

The partial closure of the Holmes Chapel site comes more than three years after the US Food and Drug Administration banned the sale of two products made at the plant citing low standards.

"Some of the money already invested to improve the plant will [now] be wasted," said Mr Egan. A new plant will be built at the site as part of a £100m investment over four years.

This will not prevent the transfer of the manufacture of a range of products to a Fisons plant at Le Trait, near Rouen, Normandy, France. The French plant will make liquid products such as anti-allergy nasal sprays and eye drops. Le Trait's production of glass ampoules will be subcontracted to a US company. Manufacture of asthma inhalers and other anti-allergy pharmaceuticals will continue at Holmes Chapel. Lex, Page 14

Barry Riley

Time running out for the bond market bulls



It is now more than three months since the 30-year US Treasury bond yield hit a low of 5.78 per cent and bounced back up by half a percentage point.

Recently the long bond yield has fluctuated quietly around 6.3 per cent. Time is running out for the bulls who have counted on US Treasuries to regain and surpass their price peaks.

More recently there has been a sharp break in the Japanese bond market where the 10-year yield jumped from 2.96 per cent to almost 3.40 per cent in a few days in the middle of this month. The latest on-off refutation package has upset the JGB market with its threat of massive extra borrowing although, in a funny way, the bond market can gain some comfort from the government's disarray, because the flood of paper is postponed.

Together the US and Japan account for 80 per cent of the capitalisation of the worldwide government bond market, so there is increasing evidence for calling the turn in the global bull market. European bonds, however, still have something going for them.

UK gilts looked as though they were suffering something of the same January reaction as JGBs, but increasing optimism about a fall-off in the rate of issuance next year has allowed long gilt yields to claw their way back almost to the December 31 lows. Today's auction of £2.5bn of a 16-year gilt will give a clue to the robustness of demand.

As for the Continental countries, they are lagging in the economic cycle and with short-term interest rates having quite a way to fall, there is still scope for domestic money to shift into the bond markets. All the same, after dropping from 7% to 5% per cent last year, the 10-year yield on German bunds does not have all that much further to go, and indeed has itself backed up a little this month.

The global deflation story which has had bond investors salivating looks rather tired now. Although the weakness of the oil price has been holding down inflation, many other commodity prices have been picking up. Global economic growth is slowly

increasing now. Rapid expansion continues, in fact, in the emerging economies, which will soon be large enough to have a significant effect on commodity demand.

Central governments have been pumping large amounts of liquidity into the international economy. True, this infusion does not show up in the broad money figures, which indicate growth of only about 3 per cent averaged across the Group of Seven economies. This is because the liquidity has disappeared into the booming securities markets and thereby largely into repayment of short-term corporate debt.

It is worth noting, though, that narrow money has recently been growing at an annual rate of 10

per cent in the US and 6 per cent in the UK (and broad money growth, too, is now accelerating in the UK).

Eighteen months ago a short-term interest rate of 3 per cent may have been justifiable in the US, but it is now inappropriate when this Friday's statistics may well show that money GNP has recently been growing at 7 per cent year-on-year. Inflation is, of course, steady, but it only responds to monetary acceleration with a time lag of something like two years.

However, having got here, the US Federal Reserve has no easy way back. A sharp hike in short-term interest rates might perversely cause a rapid acceleration in broad money growth as investors moved back into deposits, and unpredictable damage would be done to the value of long-term assets; equities would be vulnerable to a rising yield ratio. But a cautious edging up in rates might be little better, because investors would assume it was only a taster for the real thing.

If the Fed persists with masterful inactivity it will remain in a comfortable position for the time being, perhaps for the rest of the year. But doing nothing will not be a soft option indefinitely; the US bond market will sweat increasingly about the inflationary implications for a year or two out.

This announcement appears as a matter of record only.

TURKIYE IS BANKASI A.S.

US \$110,000,000
Term Loan Facility

Arrangers and Lead Managers:
 The Sumitomo Bank, Limited
 National Bank of Kuwait (International) PLC
 Société Générale

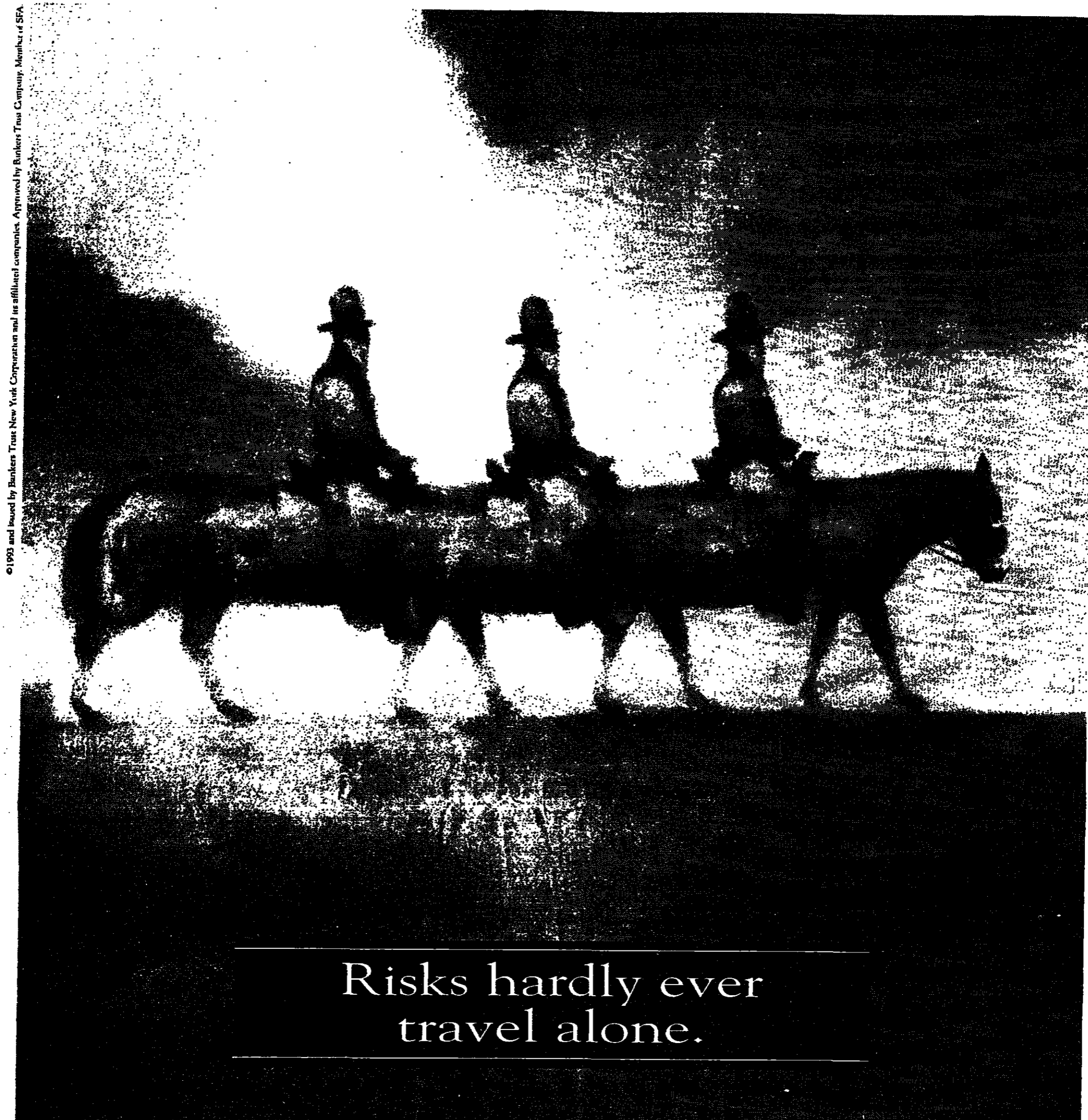
Managers:
 Arab Banking Corporation (B.S.C.)
 Banque Paribas
 Bankers Trust Company
 Westdeutsche Landesbank Girozentrale
 New York Branch

Co-Managers:
 Banco do Brasil S.A.
 Bkubon
 GiroCredit Bank Aktiengesellschaft der Sparkassen
 The Bank of Kuwait and the Middle East K.S.C.
 Commerzbank International S.A.
 Hungarian Foreign Trade Bank Ltd

Participants:
 Banque Française du Commerce Extérieur
 National Westminster Bank PLC
 Banca di Roma-London Branch
 Bayerische Vereinsbank Aktiengesellschaft
 Credit Industriel et Commercial
 Credito Italiano, London Branch
 Berliner Handels-und Frankfurter Bank
 Barclays Bank PLC
 Berliner Bank Aktiengesellschaft
 Credit Suisse
 First Commercial Bank Ltd, London Branch
 Union de Banques Arabes et Françaises-UBAF
 The Industrial Bank of Kuwait K.S.C.

Agent:
SUMITOMO BANK

December 1993



Risks hardly ever travel alone.

Risks prowl ceaselessly around every business. Usually, they hunt in packs. Dealing with them piecemeal is ineffective. More often than not, they're linked.

Nowhere is that linkage more intricate than in the airline business. Fuel prices, interest rates, currency swings, load factors, even political pitfalls – each risk has to be examined in light of the others.

To bring an element of stability to an industry that changes minute by minute, Bankers Trust has

found a way of analysing the airline business and attaching a monetary value to many of the operational risks it faces. A risk management plan that can turn volatility into profitability.

With our hands at the reins, you'll see which risk will hurt you and which you'll profit by. So risk will do your bidding, not take you unawares.

 **Bankers Trust**
LEAD FROM STRENGTH.

INTERNATIONAL COMPANIES AND FINANCE

US drugs groups hit by pressure from buyers

By Richard Waters
in New York

Merck and Warner Lambert, two of the US's biggest drugs groups, reported a slow-down in sales of pharmaceuticals in the final quarter of last year, reflecting the growing pressure from large buyers in the US and governments to hold down drug costs.

Merck reported a 6 per cent rise in sales in the final quarter, to \$2.7bn, before the effects of the takeover of the Medco drug distribution business in November and the sale of the group's Calgon division.

The strength of the US dollar also held back the growth in sales, which would otherwise have been 8 per cent in the period, said Mr Roy Vagelos, chairman and chief executive.

Merck said that sales for the year, up 6 per cent at \$10.2bn excluding Medco, were held back by "government cost

control actions, primarily in Germany, strong competition in the US and the slowing growth in the cholesterol-lowering market, particularly in the US."

However, it added that it had seen "strong unit sales gains" in several new products.

For the quarter, net income rose to \$874m, or 56 cents a share, from \$803m, or 53 cents, a year earlier. Without the earnings dilution due to the Medco acquisition, earnings per share in the latest quarter would have been 62 cents.

Post-tax profits for the full year, before accounting changes, were \$3.2bn, or \$1.57, down 11 per cent from the year, although before restructuring charges and the effects of Medco they were 11 per cent ahead, at \$2.7bn.

Warner Lambert saw a 7 per cent fall in pharmaceutical sales last year, to \$2.1bn, 3 per cent of which was accounted

for by the strength of the dollar.

The results were also hit by a ruling from US regulators that forced the company to close temporarily its manufacturing operations in Puerto Rico, leading to lost sales of \$135m.

Sales in Warner Lambert's consumer products group, on the other hand, rose 11 per cent during the year, with an 18 per cent growth rate outside the US, 22 per cent after adjusting for exchange rates.

Warner Lambert reported a net loss for the fourth quarter of \$197m, or \$1.46, after a previously announced \$315m after-tax restructuring charge, compared with a profit of \$138m, or \$1.02, the year before.

For the year as a whole, net income before accounting changes was \$285m, or \$2.45, after total one-off charges for the year of \$360m, against \$644m, or \$4.73, in 1992.

Northern Telecom back in the black

By Bernard Simon
in Toronto

Northern Telecom returned to profitability in the fourth quarter of last year, but the telecommunications equipment maker dampened the good news with a warning that it would slip back into the red in the early part of 1994.

Following two consecutive quarterly losses, Northern posted fourth-quarter net earnings of US\$106m, or 42 cents a share, down from \$256m, or \$1.02, a year earlier.

Revenues dipped by 3.3 per cent to \$2.46bn, with strong growth in Europe more than offset by declines in Canada and other overseas markets. Revenues from central office switches were flat, but sales of cable and transmission products were sharply down.

Fourth-quarter orders were virtually unchanged from a year earlier, but the year-end order backlog of \$4.82bn was 35 per cent higher.

Northern has been thrown into turmoil by a loss of market share in its core central office switch business, delays in bringing fibre-optic transmission products to market, and its slow start in cellular phone technology.

Mr Jean Monty, who has succeeded a shake-up since taking over as chief executive early last year, said the restructuring plan begun in mid-1993 will take 18 months to complete. As a result, "we will build profitability as we go through the year."

An operating loss is expected in the first quarter, due to a combination of pricing pressures, unfavourable product mix and seasonally lower volumes. But Mr Monty expressed the hope that the benefits of lower costs and a strengthened portfolio of products would emerge later in the year.

He singled out wireless and broadband radio products to be launched in the second quarter, and rising sales of central office software in the second half.

Ms Hilary Mine, an analyst with Northern Business Information in Portland, Oregon, predicted that "in the long run, you'll see them come back as a major player."

Ms Mine said she was impressed by new switching software unveiled last autumn, and by its growing focus on operations outside North America.

The contribution of offshore markets grew to 29 per cent of revenues last year from 26 per cent in 1992. Northern suffered losses of \$878m, or \$3.54 a share, for 1993 as a whole, due largely to restructuring and other charges totalling \$1.16bn.

Job losses push Nynex into red

Nynex, the Baby Bell telecommunications company serving the north-eastern US, is to cut its workforce by 16,500, or 22 per cent, by the end of 1994 and has taken a \$1.6bn charge against fourth-quarter earnings to cover the restructuring.

The cuts are the latest in a series by local US telephone companies, which face a breakdown of their traditional monopolies as the telecommunications and entertainment industries converge in a new multi-media sector.

As a result of the charges, Nynex reported a net loss for the fourth quarter of \$1.24bn, or \$3 a share, against net income of \$324.2m, or 79 cents, in the same period of 1992.

Nynex, which faces some of the toughest competition in the US from new competitors, has been criticised in the past for being slow to change.

The company said its \$1.6bn charge reflected a comprehensive strategy to improve efficiency and customer services.

Lehman's world turns full circle

Richard Waters considers the prospects for the firm after its spin-off

For Lehman Brothers, the world will turn full circle in April. It will be exactly 10 years since the then-private investment banking firm, torn by rivalries between its partners, was sold to American Express. It is also likely to be the month the credit card group spins off Lehman Brothers again, replete with \$1.25bn of new capital to enable it to become an independent company.

The demise of the old Lehman Brothers Kuhn Loeb in 1984 was one of Wall Street's greatest dramas. Its sale, after 134 years as a private firm, was triggered by a power-struggle at the top of the firm, setting off a chain-reaction of rivalries between Lehman's 44 partners.

For American Express, it represented a way, along with the acquisition of the Shearson retail brokerage firm, to expand into businesses which were projected - rightly - to become among the financial industry's biggest profit-earners.

Yet the credit card group was never able to generate the same profits as others in the industry, and has been bent on selling businesses in the past two years to shore up its core credit card and other consumer finance businesses.

Lehman's new freedom emerged late on Monday, as American Express announced it would spin off the company to the group's shareholders in the form of a tax-free dividend, expected to be completed in April.



Harvey Golub: Amexco chief says Lehman is overcapitalised

To gain a single-A rating from credit rating agencies, essential for any financial company which has a large inventory of stocks and other securities to finance, Lehman's capital base is being boosted with \$1.25bn of new capital, \$1.09bn provided by American Express and \$160m by Lehman's employees.

The Lehman set to emerge from under American Express's wing is in many ways similar to the Lehman of 10 years ago, although it is considerably larger. It has always been seen primarily as an investment banking firm, known for its underwriting and corporate advisory work, rather than as a trading house.

Yet Lehman had been building a trading business in the fixed income and money markets before the sale to American Express - headed at the time by Mr Richard Fuld, the firm's current president and chief executive.

The firm continues to be known mainly for its investment banking work, although trading has become the bigger revenue-earner. Last year, while investment banking income rose a steady 19 per cent, to \$802m, trading income soared by 47 per cent, to \$1.5bn.

The challenge facing Lehman is to lift profitability to secure its position as one of the so-called "big five" of banks that dominate investment banking both in the US and internationally.

Judged by its projected equity capital base, Lehman looks to be firmly in the leading group. The \$1.25bn injection will catapult it towards the top of the league, giving it total capital of \$3.5bn.

At that level, it may not stand exactly shoulder-to-shoulder with giants like Merrill Lynch (which had \$4.6bn of equity a year ago, a figure which is likely to have risen considerably since) and Salomon (\$4.3bn). Yet it still ranks as one of the biggest institutions, and has come a long way since 1991, when its equity base was a mere \$1bn.

The extra capital is a mixed blessing. Even with its smaller equity base, Lehman's earnings last year - \$376m after tax, leaving aside one-off items

- gave it a lower return on capital than most of its rivals. With the swollen equity base, return on capital will look weaker still - just 14 per cent post-tax, based on last year's earnings, a scant return for a securities firm during what is widely seen as the peak of the market.

American Express chairman Mr Harvey Golub certainly believes that the requirements of the rating agencies have left Lehman overcapitalised. As a result, the credit card group has kept an interest in the firm's future profits, which could allow it to take back \$400m over the next eight years if Lehman's earnings rise above a certain level.

Lehman has been striving for the past two years to lift revenue sources and improve profit margins. Known mainly for its fixed income expertise, Lehman has embarked on expansion primarily to foreign exchange, along with swaps and other derivatives markets. It has also invested in expanding its international operations in an attempt to catch up with the international dominance built up by Goldman Sachs and Morgan Stanley.

Competitors single out Lehman's lack of a US retail client base as a weakness. The Shearson brokerage business was sold to rival Smith Barney last year. However, the firm claims it has an adequate base of investors in the US, and has not targeted this as an area for investment.

'Aladdin' pushes Walt Disney ahead 34% in first quarter

By Martin Dickson
in New York

Walt Disney, the US entertainment company, yesterday reported a 34 per cent increase in first-quarter net income, powered by strong US video sales of its hit cartoon film *Aladdin*.

However, the results excluded its 49 per cent investment in Euro Disney, the loss-making theme park near Paris which is about to start full-scale negotiations with its banks over an emergency re-financing package.

Walt Disney said it had not included Euro Disney because it took a \$350m charge last November to reserve fully against receivables due to it from the park and its provision of limited and temporary funding to the business until the end of March.

The treatment underscores Wall Street expectations that Walt Disney will take a tough line in negotiations with Euro Disney's creditors and will insist it will not provide funding beyond March 31. If a refinancing were not agreed by then, the park could close.

Walt Disney reported net income of \$368.5m, or 68 cents a share, compared with \$275m, or 50 cents, before accounting changes in the first quarter of last year.

Revenues rose 14 per cent to \$2.7bn. Operating income was up 26 per cent at \$824.4m.

The best performance came from the filmed entertainment business, which saw operating income rise 45 per cent to \$340m on revenues 18 per cent ahead at \$1.4bn.

This was due mainly to the success of the film *Aladdin* in

video cassette form in the US market, and in cinemas in international markets.

Another factor was the international home video release of *Jungle Book*.

Disney's theme parks saw operating income rise only 1 per cent to \$138m, on revenues 3 per cent ahead at \$769m.

The company said an increase in occupied room nights at its Florida resorts and a growth in per capita spending had contributed to the higher results, but these had been partly offset by slightly lower theme park attendance, due to the softness in international tourism.

The consumer products segment saw operating income rise 17 per cent to \$146m on revenues 22 per cent ahead at \$532m.

USAir reduces deficit to \$116.5m in term

By Richard Tomkins
in New York

USAir, the US carrier in which British Airways holds a minority stake, yesterday showed progress in cutting its losses, reporting a fall in its fourth-quarter after-tax deficit to \$116.5m from \$254m last time.

The final quarter's performance helped bring a significant cut in full-year losses to

\$349.4m from \$600.6m before accounting changes and to \$393.1m from \$1,230m after the changes. But it also marked the end of the fifth consecutive year in which USAir has failed to show a net profit.

Like other US airlines, it has been suffering intense competition from low-cost carriers and has been trying to cut costs in response. In the year just ended it benefited from a slight

recovery in the US market and from a steep decline in fuel prices.

The company said if all non-recurring items were stripped out of its full-year results, it would have shown an operating profit of \$23.7m, compared with operating losses of \$223.1m the year before.

But Mr Seth Schofield, chairman and chief executive, acknowledged the airline's

financial results remained unsatisfactory in spite of the progress made.

Fourth-quarter turnover rose to \$1.8bn from \$1.63bn and losses per share fell to \$2.39 from \$5.56, while full-year turnover rose to \$7.08bn from \$6.89bn. Losses per share fell to \$7.58 from \$13.88 before accounting changes and to \$8.48 from \$27.23 after the changes.

New figures show sales of Apple's Newton MessagePad falling off

By Louise Kehoe
in San Francisco

Apple Computer has sold only about 75,000 of its highly-publicised Newton MessagePad hand-held "personal digital assistant" products since they were introduced last August.

The group has been reluctant to reveal sales figures since it announced initial sales of 50,000 units last September. The new figure demonstrates that Newton sales have fallen off sharply over recent months.

Apple insists it is not disappointed and that new product sales volumes typically decline

after an initial rush of interest. However, analysts see the latest figure as confirmation that Newton is failing to live up to the company's expectations.

The Newton has been dogged by reports that its handwriting recognition software is unreliable. Communications capabilities were also limited at the time of its launch, although these can now be improved with add-on products.

Apple is expected to introduce new versions of Newton later this year. Several companies that have licensed Newton technology are also expected to launch products.

Poor sales could raise doubts about the commercial value of Newton technology. However, initial sales are not always a good indicator of long-term performance - Apple's first Macintosh personal computer, launched 10 years ago, was not an overwhelming success, but Apple has since sold about 14m Macintosh PCs.

Slow Newton sales are, however, making potential competitors more cautious. Compaq, which is developing a hand-held "mobile-companion" that is expected to compete with Newton, has decided to delay its introduction.

Renault sells Colombian arm

By John Ridding in Paris

Renault, the French state-owned vehicle company, is selling control of its Colombian subsidiary to the Santo Domingo Group, one of the country's largest business concerns.

The move is the latest and final step in Renault's policy of reducing its exposure to financial and political risks in Latin America, while maintaining its commercial presence. In April last year, it sold its Venezuelan subsidiary to local industrial-

ists and in 1992 it sold control of its Argentine operations to a local holding company.

Under the terms of the deal, Renault is selling 51 per cent of the shares in Sofasa, its Colombian subsidiary, to Bavaria, part of the Santo Domingo Group. Renault's stake in Sofasa is reduced to 24 per cent, with the balance held by Toyota and Mitsui of Japan.

Sofasa, which assembles the Renault 9 and the Renault 21 at its Medellin plant, will continue to produce Renault vehicles. It will also expand

Renault's commercial base and its distribution network in Colombia. The production of Toyota's utility vehicles - the Land-cruiser and Hilux - will be unaffected.

Last year, Sofasa produced more than 12,000 Renault cars and accounted for about 13 per cent of the Colombian market. In 1992, Sofasa reported net profits of FF18m, and remained in profit last year.

Renault's sales in Latin America increased from about \$3,000 in 1992 to 108,500 last year.

Dean Witter jumps ahead to \$604m

By Richard Waters

Dean Witter, Discover, the US financial services group, reported a 47 per cent jump in net income for last year to \$604m, or \$3.66 a share, as its securities and credit card businesses reported strong advances.

Buoyed by the same surge in US underwriting and record commission income that have pushed earnings at other securities houses to new highs, the

company's securities business reported net income in the last quarter of \$75m, and \$294m for the year as a whole.

During the latest period, commission income at \$257m was 28 per cent higher than a year before, while revenues from principal trading fell 13 per cent to \$90m.

After-tax profits from the Discover card, which has more account holders in the US than any other payment card, rose to \$83.6m in the quarter, from

\$35.6m the year before, as revenue growth of 22 per cent outpaced a slower rise in costs.

The card, launched in 1985, first came into profit in 1988 and has continued to grow strongly since.

Revenues in the latest quarter were helped by a 31 per cent increase in fees from merchants and cardholders, mainly due to higher transaction volumes on existing cards.

Banco de Colombia sold for \$500m

By Sarita Kendall in Bogota

The biggest privatisation undertaken by the Colombian government was completed this week with the sale of 75 per cent of the Banco de Colombia to Bancol, the Call-based business group.

Including smaller packages of shares bought by employees and other investors the bank was sold for around \$500m.

The Banco de Colombia, originally part of the Grupo Gran-

colombiano which collapsed in the mid-1980s, was nationalised and rehabilitated by the government.

It is one of the biggest banks in Colombia, with about 12 per cent of the total assets of the country's financial system, 11 per cent of all local branches and majority holdings in several subsidiaries. Bancol, owned by the Gilinski family, offered about \$360m for 75 per cent of the shares.

Mr Rudolf Hommes, the min-

ister of finance, said he was satisfied with the way the sale had gone and that other financial entities would be privatised.

The government has been trying to prevent drug-trafficking money from filtering into the financial system through privatisation deals.

The Gilinski family owns several small industries as well as the Banco Andino, which had about 1.5 per cent of the local market.

Mr Jaime Gilinski said the Banco de Colombia needed investment in technology to boost its profitability and that overseas business would be expanded. The bank has a subsidiary in Panama and owns the Eagle National Bank of Miami.

An offering of \$220m notes exchangeable into shares is also being made internationally through Deutsche Bank and its Morgan Grenfell subsidiary in London.

LVMH
MOËT HENNESSY • LOUIS VUITTON

THE FOLLOWING POINTS CLARIFY A NUMBER OF QUESTIONS THAT HAVE BEEN RAISED CONCERNING THE RESTRUCTURING OF LVMH RELATIONSHIPS WITH GUINNESS PLC

- 1) The LVMH sale of a 34% stake in Moët Hennessy to Guinness is priced fairly, based on an earnings multiple 30% above the average multiple of comparable companies in the wine and spirits industry (Guinness, Grand Metropolitan, Allied-Lyons, Seagram, Pernod Ricard). According to IBES Focus, an independent organization which surveys analysts earnings estimates, these companies were valued at a multiple of 15 times the average projected net earnings for 1993 and 1994, whereas the sale of a minority interest in Moët Hennessy to Guinness was based on a multiple of 20.
- 2) The transaction's FF 11 billion in proceeds to LVMH, combined with declining interest rates, will cut the Group's financial expenses, on a full year basis, by FF 1.5 billion from the 1993 level.
- 3) LVMH reaffirms its commitment to maintain a 66% interest in Moët Hennessy. The champagne and cognac activities remain core strategic businesses for LVMH and a further reduction in the Group's stake in Moët Hennessy is neither a short-term nor a long-term objective.
- 4) LVMH's return on invested capital in the perfumes and luggage segments is three times higher than in the wine and spirits segments. Therefore, the sale of a 34% stake in Moët Hennessy to Guinness is expected to benefit LVMH's long-term profitability.
- 5) LVMH's strategy is to continue to build its core activities in the luxury sector where its unique expertise gives it competitive advantage. Therefore, LVMH will not diversify into press and media activities beyond the limited investments it already has in La Tribune and Investir.
- 6) LVMH sales for the last months of 1993 were better than expected in most sectors. Preliminary consolidated sales for 1993 are expected to reach FF 23.8 billion, a 10% increase over the 1992 level.

LVMH, THE WORLD'S LEADING LUXURY PRODUCTS GROUP

We are pleased to announce the election of the following officers

S. Joshua Lewis
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WARBURG, PINCUS VENTURES, INC.

Louis G. Elson
Vice President

E. M. WARBURG, PINCUS & CO., INTERNATIONAL, LTD.

Howard Conroy
Controller

E.M. WARBURG, PINCUS & CO., INC.

E.M. WARBURG, PINCUS & CO., INC.

NEW YORK

LONDON

January 1994

Notice of Redemption
Auto Funding PLC
Class A Floating Rate Notes
due 1996

NOTICE IS HEREBY GIVEN to the holders of the Class A Floating Rate Notes due 1996 (the "Class A Notes") of Auto Funding PLC (the "Issuer") pursuant to the Trust Deed dated 29th November, 1991 (as amended) between the Issuer and the Law Debenture Trust Corporation plc (the "Trust") and the Agent Bank Agreement dated 29th November, 1991 between the Issuer and Union Bank of Switzerland (the "Agent Bank") and others that the Issuer has determined, in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A Notes, that Available Redemption Funds (as defined in the Terms and Conditions) in an amount of £21,500,000 (and will be utilised on 31st January, 1994 (the "Redemption Date") to redeem (at their principal amount) an equivalent amount of Class A Notes. The Class A Notes to be redeemed have been selected in accordance with the rules and procedures of Euroclear and CEDEL.

AUTO FUNDING PLC
By: Union Bank of Switzerland
As Agent Bank
24th January, 1994

JPY 15,000,000,000
BRITISH AIRPORTS
FINANCE B.V.

Floating Rate Guaranteed
Notes due 1996

Interest Rate 2.10% p.a.
Interest Period January 25, 1994
to July 25, 1994
Interest Amount due on
July 25, 1994 p.p.
JPY 10,000,000 JPY 105,583

By: Agent Bank

U.S. \$75,000,000
SWEDBANK
(Sparbankernas Bank)
Subordinated Floating Rate
Notes due 1997

Notice is hereby given that for the three months interest period from January 26, 1994 to April 26, 1994 the Notes will carry an interest rate of 3.5% per annum. The interest payable on the Notes for the period from April 26, 1994 to July 25, 1994 will be U.S. \$1,875,000 and U.S. \$1,875,000 respectively for the periods from July 26, 1994 to October 25, 1994 and from October 26, 1994 to January 25, 1995. The sum of U.S. \$5,625,000 will be payable per U.S. \$10,000 principal amount of Registered Notes.

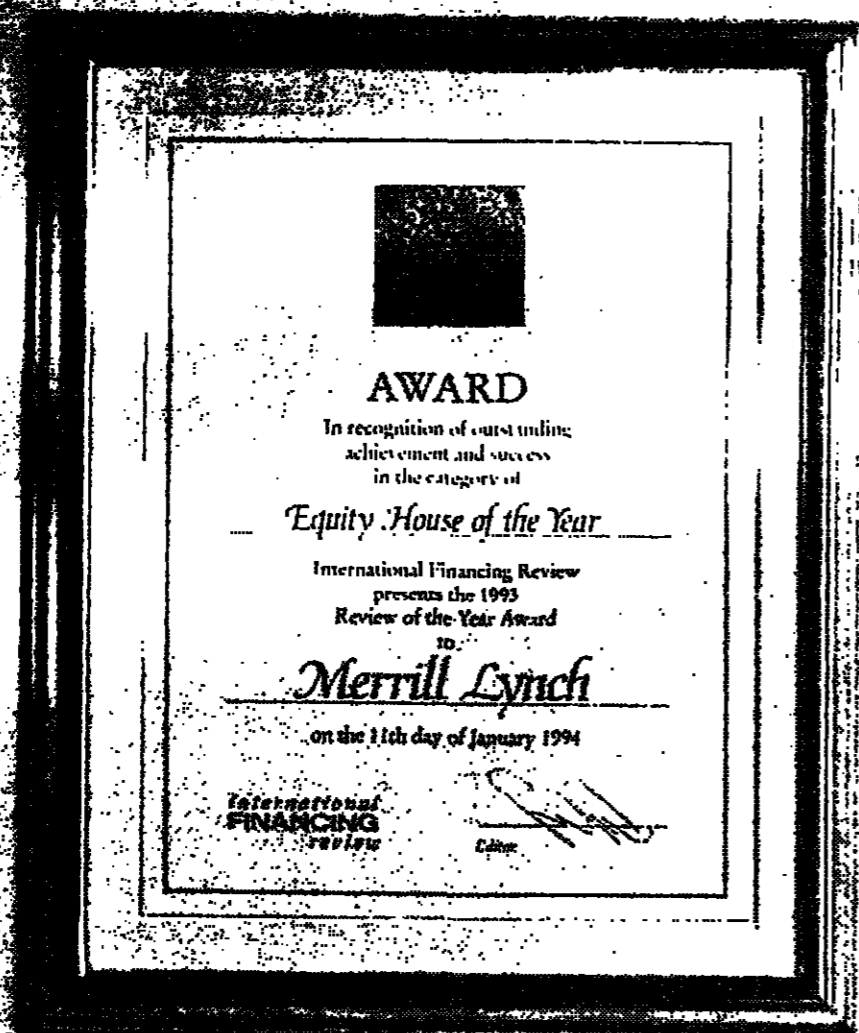
By: The State Bank of New York, N.Y.
London Agent Bank
January 25, 1994

KOREA GROWTH TRUST
International Depository Receipts
evidencing Beneficial Certificates
representing 1,000 units

CORRECTION

Notice is hereby given to the Unitholders that Korea Growth Trust, managed by Citizens Investment Trust Management Co. Ltd., declared a distribution of up to \$1,000 per US\$ of 1,000 units and not won \$21,164.

Depository: Morgan Guaranty Trust Company of New York, 25 Avenue des Arts B-1040 Brussels



"Top managers set about building the teamwork approach and reinforcing the firm's strong client relationship orientation, and the effort seems to have paid off."

International Financing Review

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A difference in standard.

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A tradition of trust.

INTERNATIONAL COMPANIES AND FINANCE

NEWS DIGEST

President of Bangkok Bank quits

The president of Bangkok Bank, Thailand's largest bank, has resigned, the bank told the Stock Exchange of Thailand (SET), confirming news reports, William Barnes and Reuters report from Bangkok.

The bank said in its official statement to the exchange that Mr Vichit Suraphongchai, 48, resigned due to health problems 14 months after taking office.

The SET said the bank had not indicated whether he would take up another post within the bank.

Bangkok Bank is part of the Sophonpanich family empire whose interests range from palm oil plantations to hospitals, insurers and finance companies.

Argus sells 50% stake in Sowetan

South Africa's Argus group of newspapers has sold its 50 per cent stake in the Sowetan newspaper to a new black business group, writes Matthew Curran.

New Africa Publishing (NAP) will acquire the Argus's holding in the newspaper, one of the country's most popular with daily sales, mostly to black readers, of more than 200,000 copies.

The Argus, controlled by Anglo-American through associate mining house Johannesburg Consolidated Investment, will hold a 19.9 per cent interest in NAP. Argus will be given a 30 per cent minority stake in New Africa Communications, majority shareholder in NAP, as settlement for the deal.

China denies foreign listings rumour

China's securities watchdog Mr Zhu Li has denied rumours that Beijing is ready to permit foreign companies to list domestic A shares on the Shanghai stock market, saying it was not yet time for the move, Reuters reports from Beijing.

Mr Zhu, secretary-general of the China Securities Regulatory Commission, said the commission was considering opening domestic bourses to overseas investors and allowing Chinese citizens to hold "foreigners-only" B shares. Allowing overseas firms to list domestic A shares is also being considered, but no decisions have been made, he said.

Cement factories to merge

Onoda Cement and Sumitomo Cement are to merge two factories to form a new company on February 1 to improve productivity, a Sumitomo Cement spokesman said. Reuters reports from Tokyo. Both factories are in Kyoto Prefecture in western Japan.

JCI climbs 12% as gold production hits high

By Matthew Curran
in Johannesburg

Record gold output and better gold prices gave combined after-tax income from the gold mines in the Johannesburg Consolidated Investment group a 12 per cent boost to R114.6m (\$33.5m) in the December quarter. The mine turned in R102.6m in the previous three months and R62.6m in the December quarter of 1992.

Group gold production reached its highest level since 1978 at 13,373kg against 13,229kg in the September quarter, with the average gold price secured climbing to R29,066 a kg from R27,744 a kg.

Mr Kennedy Maxwell, chairman of JCI's gold division, said the mines' success in keeping average working costs almost unchanged at R23,700 a kg during 1993 was a "very satisfactory" achievement in a climate of near double-digit inflation.

Western Areas achieved an increase in grade for the sixth quarter in a row which at 7.34 grammes a tonne was the highest recorded since 1972 and likely to be maintained in the current quarter. After-tax profit jumped 20 per cent to R50.2m from R41.8m although capital spending rose as the mine upgraded its electrical supply and pumping facilities.

Mr Maxwell said despite progress in talks about merging Western Areas with the neighbouring South Deep mine, in the early stages of development from Western Areas workings, a rights issue to finance full-scale development of the multi-million rand project was a long way off.

A good quarter at Randfontein Estates, which turned in after-tax profit of R65m against R57.2m, contrasted with a disappointing performance from the Joel mine. Joel suffered a R637,000 after-tax loss, against after-tax income of R3.81m, before capital spending of R8.03m.

Japanese paper groups in link-up

By Emiko Terazono
in Tokyo

Honshu Paper, a leading Japanese paper and pulp company, and Takasaki Paper have agreed an alliance involving the sharing of distribution and purchasing channels.

The move follows mergers by other leading Japanese paper manufacturers last year and is expected to generate further reorganisation of the country's troubled paper and pulp industry, which has been facing thinner profit margins due to over-

supply and lower demand stemming from the economic downturn.

Japan's material makers, including paper and pulp, cement and chemical companies, are facing increased competition from south-east Asia due to the strong yen. A shift of manufacturing centres by Japanese high-technology and export-orientated manufacturers to overseas locations has also hurt demand.

The paper industry has been facing pressure from over capacity, and last April Nippon Paper Industries was created by a merger between Jujo Paper and Sanyo-Ko-

kusaku Pulp, while in October, Oji Paper and Kanzaki Paper merged to become New Oji Paper.

Honshu said cost-cutting from streamlining operations was limited and it had turned to a link-up with Takasaki for survival. The two companies will provide products to each other for sale under their own brand names. Both companies will invest some ¥1bn (\$8.9m) to buy each other's stock. Honshu intends to take 3.26 per cent of Takasaki while Takasaki is planning to hold a 0.46 per cent stake in Honshu.

Guinness deal goes flat for LVMH

Shareholders will be seeking an explanation, writes Alice Rawsthorn

When two companies announce a deal and one sees its shares dive down while the other's shoot up, the first company has a problem.

This is the position in which LVMH, the French luxury goods group, found itself after last Thursday's announcement that it had renegotiated its seven-year-old cross-shareholding agreement with Guinness, the UK drinks concern. Mr Bernard Arnault, the LVMH chairman, is spending most of this week trying to repair the damage.

"I thought the benefits of the agreement were obvious," he says. "But perhaps we should have done more to explain them."

The analysts who follow LVMH would certainly agree. The new agreement was announced at a London conference, organised by Guinness, with only one LVMH director present. The French group did not hold its own conference in Paris.

LVMH, having seen its shares fall by 5.5 per cent to FF3.815 from FF4.037 by last Friday, summoned the Paris analysts to a briefing this Thursday. The shares promptly rallied on Monday and yesterday rose again to FF3.820 from FF3.840. "We should be able to explain everything on Thursday," says Mr Arnault. "Better late than never."

In theory Mr Arnault's explanation ought to be fairly easy. The new agreement involves



Bernard Arnault: setting out the benefits of the deal

Guinness selling its indirect 24 per cent stake in LVMH to Christian Dior and Au Bon Marché (two other companies controlled by Mr Arnault) for £1.3bn (\$1.9bn) and paying £902m to LVMH for a 34 per cent holding in Moët Hennessey, the latter's champagne and cognac business. LVMH has also agreed to reduce its Guinness holding (worth around £400m) from 24 per cent to 20 per cent by the end of June.

Guinness should benefit by concentrating its LVMH investment in drinks, the area of the business it knows best, and raising £416m in cash. But Mr Arnault can also point to advantages for LVMH. Dior

and Bon Marché will, after all, pay for the deal. LVMH will emerge with a slightly smaller stake in Guinness and enough cash to reduce its net debt from FF15bn to FF4bn.

Why then have LVMH's shareholders reacted so badly? One reason was the group's misjudgment in failing to explain its side of the story. Another is that the deal should slightly dilute LVMH's earnings in 1995 and 1996. But the main factor is that Guinness's withdrawal leaves Mr Arnault in complete control of LVMH at a time of growing concern about his strategy.

Mr Arnault, 44, made his name in the 1980s as an ambitious young businessman who planned to revitalise the anachronistic French corporate scene with his aggressive Anglo-Saxon tactics. "Investors liked him because he was so different from the old French industrialists," says Ms Marie-Laure Favre-Gilly, an analyst at Baring Securities in Paris. "He really seemed to be financially-driven: always looking at the bottom line."

But analysts suspect that Mr Arnault has changed. They have long complained about his fondness for chic soirées staged by his fashion houses. The final straw was last year's acquisition of La Tribune Des Femmes, the French financial newspaper. "Why invest in newspapers?" says Ms Favre-Gilly. "It makes him look like a megalomaniac."

Analysts are worried that Mr Arnault may spend the pro-

ceeds of the new Guinness agreement to finance other such deals for LVMH. Mr Arnault denies this. "My sole preoccupation is the bottom line," he says. "I'm the biggest single shareholder in LVMH. All I care about is increasing our profits and our share price."

So why did he buy La Tribune? "Because we also have a wider responsibility," he says. "This was a French company that could have fallen into foreign hands." Is such a sentiment compatible with his professed obsession with profitability? "Of course," he says. "La Tribune was a tiny deal. We bought it for a low price and we'll get a good return."

But Mr Arnault insists he has no intention of making more investments in newspapers.

"No one need worry on that score," he says. "I'm absolutely clear about our strategy. LVMH is the world leader in the luxury goods industry and that's where we'll expand."

His aim, he says, is to launch new products for the group's established brands and buy other luxury brand names that he can develop. He also plans to fill the gaps in LVMH's portfolio by buying businesses in fields such as jewellery. "It's an attractive area for us," says Mr Arnault. "But we'll only move if the right company comes up at the right price. We're not in a hurry."

Amcor cuts 530 jobs and invests A\$51m in mills

By Nikki Tait in Sydney

Amcor, the Australian paper group, is to cut 530 jobs and invest an immediate A\$51m (US\$36m) in mills in Tasmania and New South Wales, in its efforts to create a viable Australian white paper industry.

Amcor, via its Australian Paper Manufacturers subsidiary, acquired Associated Pulp and Paper Mills from its domestic rival, North Broken Hill Peko, for A\$415m in September. The deal left Amcor as the sole Australian manufacturer of white paper. Rationalisation was expected to follow in the deal's wake, as Amcor

attempted to improve efficiency and combat strong import competition.

Amcor said that the job cuts were part of a strategy to reduce costs and improve utilisation, and would occur in Victoria, New South Wales and Tasmania. Its five-year plan, presented to employees and union officials, also envisages enterprise bargaining agreements for individual mills.

Apart from the immediate investment in mills in Tasmania and New South Wales, the company said that it was evaluating \$65m-worth of investment in projects to upgrade facilities and service.

Strong demand behind record Posco profits

By John Burton in Seoul

Pohang Iron and Steel (Posco), the world's third largest steel-maker, reported unconsolidated net profits grew by 59 per cent to Won294.6bn (\$364m) as sales rose 13 per cent to Won6,320bn.

The South Korean state-controlled group said the record results were due to growing demand for steel products from the motor vehicle and construction industries. The completion of an extensive production expansion programme in 1992 had also contributed to profit growth as investment costs fell.

Hakuhodo ends 34-year venture with US agency

By Paul Abrahams in Tokyo

Hakuhodo, Japan's second largest advertising agency, yesterday dissolved a 34-year-old Tokyo-based joint venture with McCann-Erickson of the US. The Japanese group said the joint venture, the country's ninth biggest agency, had started to compete with its parent.

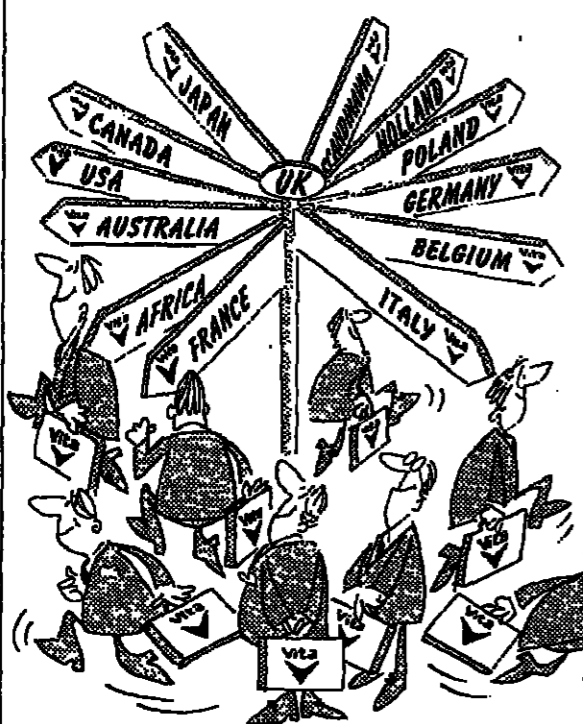
The company has handed over its 49 per cent stake in the venture to McCann-Erickson. It said the subsidiary had originally done business with overseas groups wanting to advertise in Japan.

But increasingly, the venture

had taken on Japanese clients. The former subsidiary, called McCann-Erickson Hakuhodo, would have to change its name by March.

Japan's advertising industry has been hit by the worst recession since the second world war. Mr Paul Smith, analyst at James Capel Pacific in Tokyo, estimates that billings were down between 5 and 6 per cent last year in all areas except spot television slots. "There are slim pickings out there and the recession may have exacerbated structural and cultural problems," said Mr Smith.

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January 1994

T R E N D
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COMPANY NEWS: UK

Growth expected to return this year, with first quarter well ahead

Domino Printing 24% lower at £9.1m

By Alan Cane

Shares in Domino Printing Sciences rose 47p to 488p yesterday despite the Cambridge-based continuous ink jet printer manufacturer reporting full-year figures shy of expectations.

Mr Roger Dye, finance director, said he believed the share price reflected small trading volumes and confidence in the management had not rapidly reversed its decline.

Profits before tax for the year to October 31 fell by 24 per cent to £9.1m (£11.5m) on turnover 14 per

cent higher at £81.6m (£71.6m). Earnings per share fell 23 per cent to 22.07p, compared with 28.02p. A final dividend of 5.5p is proposed for a total of 7.55p (7.5p).

Mr Gerald Dennis, chairman, said the increase resulted from the board's belief that the company would return to its traditional rates of growth and profitability this year. The first quarter of 1994 had been well ahead of the same period in 1993.

Domino reckons to be second to Videojet, a US-based company owned by GEC, in a market led by UK companies. Growth in recent years has

been driven by UK and European legislation requiring products to be marked with self-identifying bar codes.

Continuous ink jet machines are expensive, however, and sales were badly hit by recession, especially in the US where sales were flat. There was also renewed competition from Videojet in the US.

German sales proved disappointing and the company had merged its distribution activities there with those of its Swiss distributor to give better and more economic market coverage.

A diversification into mimeo-

graphic carton printing, Packtrack, cost the company £1.1m after quality problems forced the delay of the new product.

Mr Howard Whitesmith, managing director, said a new management team had restored quality and successful field trials had been completed in October.

This year Domino will move into commercial laser printing. It has also developed a new ink with a smell more acceptable to food industries.

proportionately unsettling. The signs of recovery in the UK and US are moderately encouraging but much will depend on how rapidly the ink jet market is maturing as statutory labelling of produce loses its novelty. The company is keen to move into new technologies, however, has learned an expensive lesson with Packtrack and has £16.5m cash to spend. Negotiations are in progress on unnamed potential acquisitions. The market expects some £12m in profits before tax next year, giving about 30p of earnings and a dividend of 8.5p. At 488p, the shares are undervalued.

Shandwick climbs back to the black with £4.8m

By Simon Davies

Shandwick, one of the world's largest public relations companies, yesterday announced its return to the black with pre-tax profits of £4.8m for the year to October 31, compared with a loss, restated for FRS 3, of £2.5m.

And the highly-indebted group has renegotiated its substantial bank facilities over a longer period, providing it with a more stable base on which to build its core business.

Turnover increased by 3.5 per cent to £162.5m (£157m) and operating profit before exceptional items rose to £11.4m (£8.5m).

Shandwick has net debt of £67m and banking facilities have been renegotiated annually.

Following a new agreement, however, it will lock into a £55m loan at a fixed rate for three years, with

a further £16m loan continuing on an annual basis. Interest payments should fall from a 1993 figure of \$6.6m.

Profits have also been held back by earn-outs, or deferred acquisition payments, which amounted to £5.8m last year.

A further £8m is due over the next four years, of which £2.2m should fall during the current fiscal year.

Mr Peter Gummer, chairman, said the outlook for 1994 was extremely positive.

The UK, continental Europe and Asia Pacific all performed ahead of budget forecasts in the first two months.

The US, which accounts for 50 per cent of turnover, had a slower start, but has succeeded in winning substantial new business.

Mr John Huckle, finance director, has announced his resignation and will be replaced by Mr Roger Selman, who is currently group

financial controller.

Earnings per share for the 12 months amounted to 6.4p, compared with losses last time of 4.7p. There will be no dividend.

COMMENT

Shandwick is one of the few media agencies to survive the recession without a restructuring and, with new banking facilities in place, it is emerging from a position of relative strength. Profits will be sustained over the next two years as the torrent of earn-out payments peter out. Analysts are forecasting pre-tax profits of £7m for the current year, representing a p/e of 7.8, rising to some £8.5m in 1995. Concern will focus on a possible rights issue to reduce debt levels, but with fresh bank facilities and positive cash flow, Shandwick can now afford to wait for a further recovery in its share price.

Butte AGM ends with demand for poll on resolutions

By Kenneth Gooding and Peggy Hollinger

A long and acrimonious annual meeting of Butte Mining in London yesterday ended with some shareholders demanding a poll on all the resolutions put before them. The outcome will not be known for at least three weeks.

Butte's main activity is prosecuting US lawsuits - it is seeking damages of up to \$1bn (£800m) from former managers and promoters - and several of the shareholder-defendants were at yesterday's meeting.

They included Mr Clive Smith, the Midlands entrepreneur who was a promoter and former director of Butte, and his daughter, Fiona. But, unlike many of his former colleagues, he remained silent during the meeting and refused to comment afterwards.

However, many of the questions posed at the meeting came from Newsham Investments, which is understood to be an offshore vehicle for the Smith family interests.

Mr David Lloyd-Jacob, chairman, said the "unusual" Butte articles of association gave 30 days for a poll result to be announced, so he intended to

write to all shareholders urging them to vote and return proxies within 21 days.

It emerged after the two-hour meeting that there are questions about a key 7.9 per cent block of Butte shares, once owned by Mr Smith but taken by Société Banquaire de Paris, apparently when he fell behind with loan payments.

Butte discovered at the weekend that these shares had changed ownership, but the company had not been notified - suggesting a possible breach of UK company law. Butte has begun formal moves to establish the beneficial ownership of the shares.

Another big block of Butte shares, 7 per cent, is controlled by Edinburgh-based Waverley Mining Finance. Mr Willie McLucas, Waverley's managing director, said after the meeting he was undecided about how to cast his votes.

His remarks during the meeting made it clear he did not see eye to eye with the present board - particularly over the question of the value of Butte's former assets in Australia. On the other hand, Mr McLucas said he did not particularly want to line up with the defendant-shareholder group.



Clive Smith remained silent during the meeting and refused to comment afterwards

Mr Lloyd-Jacob was closely questioned about the holders of unique loan notes issued to raise about £1.3m in November which give the holders a share in any litigation proceeds and a charge over all the company's assets. He said some of the holders had asked not to be identified, which caused Mr Keith Anderson, representing one of the nominee shareholders, to complain: "It is the loan note holders, a body not identified to ordinary shareholders, that control this company."

Mr Lloyd-Jacob said an out-of-court settlement of the US litigation was "improbable." He added: "Any want of prosecution is a default on the loan

stock. While the company can be bid for and management thrown out, it will not be an easy matter to shut down the law suit."

The chairman was not without his supporters. One commented: "It is because of this management's efforts that the company is still in existence when some might feel it was designed to disappear, to be just another corporate casualty."

Beauford finance restructure

By Peter Franklin

Beauford, the West Yorkshire-based engineering and ceramics group, yesterday announced it had conditionally agreed a conversion of bank borrowings, a placing and a rights issue.

Sir Trevor Holdsworth, chairman, said that without the debt conversion and the cash injection resulting from the placing and rights issue, and in the absence of continuing bank support, directors believed the group would be unable to continue trading.

Under the terms of the proposed refinancing, holders of the ordinary shares would receive one new 10p share for every 20 ordinary shares held. In addition, the group's bankers have agreed that £5m of borrowings owed to them be converted into 10m new preference shares and 10m new convertible preference shares. The banks have also agreed to convert a further £2m of debt into a £2m term loan and to provide new

committed facilities for the company, subject to the implementation of the proposals.

In conjunction with the debt conversion, Beauford proposes to raise some £4m before expenses by way of a placing of 11.8m new ordinary shares with institutional investors and a fully underwritten rights issue of 8.16m new shares at 20p apiece to shareholders on a 1-for-10 basis.

A subdivision of each deferred share into two deferred shares of 1/2p each and the ordinary shares into one new share of 1/2p and one deferred share of 1/2p is also proposed. The new ordinary shares will then be consolidated on the basis of one new ordinary share of 10p for every 20 new 1/2p shares. The deferred shares, which will have negligible value, will then be cancelled.

The net proceeds of the placing and rights issue, amounting to some £3.3m, will be used to reduce bank borrowings.

NEWS DIGEST

Millwall buys investment company

Millwall Holdings, the USM-quoted football company, is buying Lakewood Properties, an investment holding company, from Import & General Trading Corporation.

The consideration is being satisfied by the issue of 24.4m shares.

The deal takes I&G's holding to 40.8m shares or 12.49 per cent. Mr José Berardo, a director of I&G and president of Martimo, the Portuguese football club, will become a non-executive director of Millwall.

Lakewood has net assets valued at £1m. Its purchase will increase substantially Millwall's net assets and enable it to expand further its leisure interests.

Millwall shares were unchanged at 41p.

Specialeyes warns of second half loss

Specialeyes, the USM-quoted retail optician, expects to report a loss for the second half of its year to November 27 following difficult trading in the last two months of its financial period, normally a strong period.

It is expected to be lower than the after-tax loss of £339,000 reported for the 24 weeks to May 15. Last year

there was a pre-tax deficit of £2.27m.

The shares fell 2p to 14p.

M&G Dual net assets improve

Net asset value per capital share of M&G Dual Trust rose from £24 to £31.99 over the 1993 year. Available revenue edged ahead from £3.57m to £4.04m.

Earnings per income share emerged at 70.34p (69.09p) and a final dividend of 39.79p makes a 70.34p (69.1p) total.

AJ Archer calls off acquisition talks

AJ Archer, the listed agency on the Lloyd's of London insurance market, said that talks which could have led to it making an offer for London Wall Holdings had been discontinued.

Talks between the two companies began last September but after detailed consideration both boards had decided to call them off.

Ivory & Sime Isis net assets rise

Net asset value per share of the Ivory & Sime Isis Trust increased from 107.5p at its launch last June to 125.63p as at December 31.

Net revenue amounted to £295,000 for the six months to that date, after tax of £101,000, giving earnings per convertible annuity share of 12.71p.

A second interim dividend of 6p makes a total so far of 11p per convertible annuity, in line with forecast, and directors expect a 22p amount for the full year.

Howden wins £27m Taipei order

Howden Group, the Glasgow-based engineering company, said Wirth, its German specialist drilling subsidiary, had won an order valued at about £27m for the supply of two tunnel boring machines to Spie Batignolles, the French contractor.

The machines, scheduled for delivery in the first half of 1995, will be used in Taiwan for the excavation of two road tunnels linking Taipei with Pinglin.

Murray Smaller Markets assets rise

Net asset value per ordinary and B ordinary share of Murray Smaller Markets Trust stood at 448p at November 30. That compared with 302.6p 12 months earlier and with 344.8p at the May 31 year-end.

Available revenue for the half year to end-November slipped from £1.28m to £1.17m, equal to earnings of 2.09p (2.28p) assuming full conversion of the B shares. The interim dividend is lifted to 1.42p (1.35p).

The trust benefited from a large exposure to a broad selection of east Asian, Latin American and European markets.

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COMPANY NEWS: UK

Menvier-Swain shares fall 30p after warning

By Andrew Bolger

Shares in Menvier-Swain Group fell by 30p to 250p after the emergency lighting and fire alarms company warned that its second-half results might be influenced by recession in some continental European markets.

Pre-tax profits advanced 23 per cent to £4.1m in the six months to October 31, while sales increased by 35 per cent to £23.8m.

Mr Roy McDowell, chairman, said the UK businesses were expected to perform well in the second half. Overall, he was confident that the full-year result would be an improvement over last year.

Having weathered recession in the UK, Mr McDowell said he was now pleased to report increases in both sales and profits for the UK emergency lighting and fire alarm companies.

"In the security market, Westminster performed strongly, but Menvier Security had a disappointing first half with sales taking longer to increase than originally expected. Transmould, our Irish subsidiary, performed strongly and is now a significant contributor to group profits."

He said the group was now seeing for the first time recessionary effects in some markets in continental Europe. "Although not to the extent that we saw

two years ago in the UK."

Mr Roger Fletcher, chief executive, said a £200,000 loss in Germany reflected delays in introducing new, UK-manufactured products and post-acquisition rationalisation costs. There were no signs of recession in France, but cost-cutting by a leading competitor in emergency lighting had reduced margins.

Earnings rose to 5.6p (4.9p). In raising the dividend to 1.3p from a restated 1.1p, directors said they had taken into account current trading conditions and a desire to increase the proportion of the total paid at the interim stage.

COMMENT

The share price fell sharply partly because the figures were a little below expectations and partly because they had enjoyed a sharp run-up ahead of the announcement. Analysts revised their full-year forecasts from just over £10m to about £9.5m, but seem satisfied that these numbers were caused by a combination of specific problems, rather than a deeper failure of the group's expansionary strategy in Europe. The shares are on a prospective multiple of 19.5, a 13 per cent premium to the market. That is justified by the group's track record in growing profits through recession, but buyers at this level will be looking for long-term growth rather than immediate outperformance.

Willoughby's falls after mining setback

A decrease arising mainly from its mining operations, where production was at a reduced level, meant pre-tax profits of Willoughby's Consolidated declined from a restated £1.79m to £1.64m in the year to September 30.

The result included a £34,000 profit (£714,000 loss) share from the Northchart Investments associate, attributable to a

reduced loss on sale of investments. As a result of an accounting change, profit on disposal of investments is now calculated according to book value of investments rather than original cost.

Turnover climbed to £11.8m (£11.1m). Earnings per share slipped from 16.2p to 14.8p and a final dividend of 1p makes a total for the year of 1.5p (2.5p).

Where there's a wheel there's a way

Tim Burt on the latest move to resuscitate the Norton motorcycle business

The production line at Norton, one of Britain's most famous motorcycle manufacturers, is silent. Beside it, a wrecked Norton Commander awaits repair - the victim of a Volvo which smashed through the fairing and severed the front wheel.

Hold upright by an overhead chain, the motorcycle resembles a half-eaten carcass with its mechanical organs exposed. Like the motorcycle, Norton itself has been crashed, almost written off and left in need of urgent repair.

Ms Rozanda Skalbania, a director of Norton Motors (1993) - the new Canada-based owner - admits it will be an uphill struggle to revive the company.

The workforce at the Shenstone plant near Lichfield has been cut from 270 in the early 1990s to just 22. Motorcycle production has ceased and the company is relying on service and repair contracts to pay the wages.

"We're going to have to expand," says Ms Skalbania. "It's taken a lot of goodwill by the workforce to keep it going this far."

The first stage in that expansion was announced this week when Wildrose, the Canadian investment vehicle which last October paid about £41m (£500,000) for Norton's name and assets, unveiled plans for a reverse takeover in the US.

The takeover, giving Norton a listing on the US bulletin board in pink securities, is designed to help the company raise finance to restart production at Shenstone, launch a race team in North America

and develop its rotary engine technology for new uses.

The vision, however, is somewhat removed from reality. Although the Norton race team has enjoyed recent success, notably in the Isle of Man TT, Wildrose faces considerable obstacles in attracting investors.

Those obstacles date back to the mid-1980s, when Mr Philippe Le Roux began a reign as chief executive which saw Norton embark on a disastrous expansion strategy.

Mr Le Roux tried to sustain loss-making motorcycle production by acquiring allegedly profitable companies. In 1988 Norton acquired Pro-Fit, a US piping business, for \$15m (£10m), but it failed to produce the income expected. Then in 1990 it launched a bungled rights issue to acquire FUS, the German fasteners business, for £8.2m.

The City turned its back on Norton when it emerged that the Pro-Fit acquisition was completed only when the company resorted to high cost loans. More controversially, inspectors from the Department of Trade and Industry were called in when it was discovered that a company controlled by Mr Jimmy Tidesley, then Norton chairman, profited from the FUS transaction.

Only 11.2 per cent of the shareholders took up the rights offer, leaving Mr Le Roux and his private company, Manstorm, with a £1.75m underwriting commitment which it could not meet.

Mr Le Roux, who resigned after the DTI announced its inquiry, told the inspectors: "I



Rozanda Skalbania: the listing will give the company the financial muscle to expand

approached a Canadian firm called Ponderosa Investments run by Mr Nelson Skalbania, both on the amount we required and when I had difficulty covering my own obligation on that amount as well."

Mr Skalbania, Rozanda's father, did not oblige but his interest was aroused in Norton.

Following Mr Le Roux's departure, he began to court the company in earnest. First he brokered Norton's 1992 disposal of FUS to Westgroup Corporation of Canada. The company, which cost £5.2m, was sold for £80,000 cash with £31.7m (£6.6m) in liabilities. Then in January 1993 -

shortly before the Serious Fraud Office began an ongoing investigation into Mr Le Roux's management - Mr Skalbania approached his successor, Mr David MacDonald, with an offer from Wildrose to buy the company.

Mr MacDonald, who was appointed in 1991 at the insistence of disgruntled creditors, agreed to consider a transaction if Wildrose could demonstrate it had £5m in reserves and that no single shareholder would control more than 10 per cent of the company.

This, he says, it failed to do. Concern mounted over Mr Skalbania's role when it emerged he was facing fraud,

theft and forgery charges in Canada relating to a collapsed property deal.

Hopes that Wildrose could offer Norton refinancing opportunities through the Alberta Stock Exchange were then dashed when the company was suspended for failing to provide documents on its proposed takeover.

The affair culminated last September when Mr MacDonald resigned after accusing Wildrose of trying to buy Norton at a knock-down price without assuming any of its liabilities.

He told creditors owed more than £7m, led by Midland

Bank, that he could no longer protect the company.

Having earlier disposed of Pro-Fit and FUS, the old Norton Group was wound up in October after Wildrose purchased the motorcycling interests.

Concern that the £31m price paid for Norton was too low has been heightened by a Wildrose business plan which values the assets and ongoing business at £3.7m.

Documents filed at Companies House, however, show that the takeover was not funded by Wildrose but by loans from two Dutch finance companies: Verlin and Waag of Amsterdam.

Both these companies are thought to be linked to Mr Roberto Aquilini, a Skalbania business associate who controls 10 per cent of Norton and is listed as a director.

Industry analysts fear that the loans and suspension of Wildrose on the Alberta exchange reflect a lack of working capital behind the company.

Rozanda Skalbania, who is running Norton, is undaunted. Standing on the shop floor at Shenstone, she says: "Working capital is coming. It arrives when we need it. It involves a lot of individuals who don't want their names mentioned."

The listing, she insists, will give the famous company the financial muscle to expand.

Analysts are not so sure. One said yesterday: "They are not in a position to build anything. The factory is in a terrible state. They couldn't produce a motorcycle even if they wanted to."

Triton Europe hit by lower Brent oil prices

The combination of lower Brent oil prices and a decline in French production were blamed by Triton Europe for a swing from profits of £18,000 to pre-tax losses of £2.76m for the half year to November 30.

Turnover fell to £6.94m (£9.37m). Interest income rose to £166,000 (£138,000) but foreign exchange gains fell to £108,000 (£368,000). Losses

worked through at 2.45p (earnings 0.07p). Cash and short term investments amounted to £7.14m, equal to 8.7p per share.

Earlier this month Triton Energy, the independent US oil and gas company, made an agreed offer to acquire the minority interests in the company - it currently holds a 59.47 per cent stake.

BM makes £6.4m Australian disposal

BM Group is continuing its restructuring with the sale for A\$13.5m (£5.4m) of its 51 per cent stake in Blackwood Hodge (Australia), the construction and mining equipment company.

The disposal, which is expected to reduce BM's borrowings by about £7.1m, is being made by its Blackwood Hodge Overseas Holdings subsidiary.

The purchasers are Marubeni and Hitachi, which already hold 48 per cent of Blackwood Hodge (Australia). The remaining 3 per cent is held by another Japanese manufacturer, Tadano, for whom BH (Australia) acts as a distributor in Australia.

In the year to June 30 1993, BH (Australia) incurred losses of A\$1.7m (A\$1.89m profits).

Berry Birch & Noble issues profit warning

Directors of Berry Birch & Noble, the USM-quoted concern which provides insurance, pension and financial planning services, warned that profits for the year to January 31 were likely to fall short of market expectations.

The shares dropped 80p to 155p. The directors stated that indications pointed to some

£200,000 for the second half, making £660,000 for the 12 months, against £1.06m last time.

They said, however, that turnover would be about £7m, compared with £6.4m.

Mr Derek Berry, chairman, said the outlook was encouraging and that the final dividend should be maintained at 3.3p.

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INVESTMENT TRUSTS - Cont.

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

LEISURE & HOTELS - Cont.

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

OTHER FINANCIAL

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

PROPERTY - Cont.

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

SPRITS, WINES & CIGARS - Cont.

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

TRANSPORT - Cont.

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

INVESTMENT COMPANIES

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

MERCHANT BANKS

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

PHARMACEUTICALS

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

RETAILERS, FOOD

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

RETAILERS, GENERAL

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

TOBACCO

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

LEISURE & HOTELS

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

OIL EXPLORATION & PRODUCTION

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

PRINTING, PAPER & PACKAGING

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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PROPERTY

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

SPRITS, WINES & CIGARS

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
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Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00

TRANSPORT

Company	Price	Change	Dividend	Yield
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
Abacus	100.00	0.00	0.00	0.00
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CURRENCIES AND MONEY

MARKETS REPORT

Rates cut in ERM

Leading currencies took a back seat yesterday with interest shifting to Spain and Belgium which both announced rate cuts, writes Philip Gauthier.

The weakness of the D-Mark provided a favourable environment for other European currencies to reduce borrowing costs. Both the Belgian Franc and Spanish peseta appreciated against the D-Mark after announcing official rate cuts.

Analysts yesterday agreed that the two rate cuts formed part of a continuing pattern for countries across Europe to chip away at interest rates without a Bundesbank lead.

They lent further support to the view that currency movements, especially within the ERM, are now more a reflection of economic fundamentals than interest rate differentials.

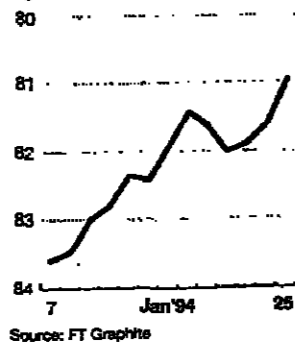
The Belgian Franc closed up against the D-Mark yesterday at BF20.69 compared to Monday's close of BF20.81 as the market welcomed a 10 basis point cut in the central rate to 7 per cent. Dealers said last Friday's resignation of three socialist politicians following a corruption scandal, and the weekend cabinet reshuffle, had calmed the markets giving the Belgian National Bank room for a rate cut. Currency and money market dealers said the central bank had room to cut rates further, but were likely to act cautiously. Apart from cutting its key central rate, the Bank also cut its overnight lending rate to 8.7 per cent. The rate changes — the second this month — took immediate effect.

Analysts said that Belgian short-term interest rates were still much higher than in neighbouring countries. The three-month short-term rate spread over Germany is currently at about 100 basis points compared with zero or even slightly below German rates before the near collapse of the ERM last summer.

The performance of the peseta after the rate cut underlined the weak sentiment towards the D-Mark. The D-Mark traded at 81.4 pesetas before the cut, but fell to finish at 80.94 pesetas. The German currency lost ground across the board on the crosses in

Peseta

Against the DM (Pts per DM)



Source: FT Graphix

Jan 25 Jan 26

1m	1.4835	1.4825
3m	1.4835	1.4825
1y	1.4712	1.4680

Europe, reflecting continuing speculation of a near-term cut in German rates, said traders. Inflation figures from Baden-Wuerttemberg of 3.6 per cent from 4.0 per cent reinforced the view that overall German inflation figures, expected Friday, will provide the Bundesbank with enough reason to relax German monetary policy.

Mr Nick Parsons, chief economist at CIBC, said the market was currently reflecting a shift in sentiment against the D-Mark rather than being driven by any hard news. "The Bundesbank is not convincing anyone of its ability to underpin the currency," Mr Parsons said. "The general disquiet" with the Bundesbank was shown by the fact that the dollar was again approaching the DM1.765 level, the high it reached on January 18. The dollar closed in London at DM1.7528, up from DM1.7504.

Mr Parsons added: "The Bundesbank is fighting old battles. It should be fighting the growth battle, not the interest rate battle." However, Mr Johann Wilhelm Gaddum, Bundesbank deputy president, yesterday underlined that the Bundesbank would cut its leading interest rates further only when key economic trends are in line with its goals. Speaking at Bochum University in Germany, he said: "If the data position — and that means the money supply in particular — develops in conformity with

our goals, we will undertake further interest rate cuts."

The dollar had another quiet day in Europe with dealers reporting minimal turnover and a marked lack of interest. The Conference Board's consumer confidence index rose in January to 83.2 per cent, slightly lower than market expectations, but still stronger than any reading in 1993. Analysts said it augured well for consumer spending in the months ahead.

The dollar opened slightly higher in New York against the D-Mark, but softer against the yen. The Japanese currency was under less pressure than during the past two trading sessions. Dealers said the yen had obtained support from reports that the prime minister Mr Morihiro Hosokawa had persuaded his opponents to discuss a compromise package of political reform measures. The yen closed yesterday in London at ¥111.55, slightly firmer than Monday's close of ¥111.825.

Sterling had a quiet day, finishing slightly firmer in London against the dollar at \$1.494 from \$1.496 on Monday. It also rose fractionally against the D-Mark, finishing at DM2.6187 compared with DM2.6186 on Monday. The pound was still unaffected by the political row over higher taxes in Britain.

Meanwhile, in a written parliamentary answer, Mr Anthony Nelson, economic secretary to the Treasury, ruled out sterling's return to the ERM during the current parliament. "Sterling's re-entry to the ERM could not be considered until there is greater convergence between the monetary policies appropriate for all the community economies," he said.

The Bank of England provided the UK money market with around \$40m sterling of unspecified aid, assistance bringing total help for the day to \$1.615bn. This compared with its forecast liquidity shortage of \$1.7bn. In its early operations the Bank bought \$1.3 bn of bills at the established repo rate of 5½. It provided \$275m in normal operations at 5½ per cent.

POUND SPOT FORWARD AGAINST THE POUND

Jan 25	Closing mid-point	Change on day	Day's high/low	One month %pA	Three months %pA	One year %pA	Bank of England index
Europe							
Austria	(Sch)	18.4173	-0.0165 074 - 372	18.4272 18.3820	18.4211 -0.2	18.4304 -0.3	-119.9
Belgium	(Bfr)	54.1575	-0.3284 085 - 656	54.4174 54.1048	54.2425 -1.9	54.3915 -1.7	-113.1
Denmark	(DKr)	10.1529	-0.0037 484 - 580	10.1589 10.1466	10.1609 -1.3	10.1734 -0.8	-104.4
France	(FFr)	8.8127	-0.0431 024 - 230	8.8413 8.7850			81.8
Germany	(DM)	2.6187	-0.0069 705 - 811	8.8536 8.8622	8.8552 -1.3	8.8955 -1.0	8.8159 -0.5
Greece	(Dr)	8.8959	-0.0002 174 - 199	2.6273 2.6140	2.6203 -0.7	2.6221 -0.5	107.6
Ireland	(Ir£)	375.443	-4.395 482 - 807	375.994 375.332			113.1
Italy	(Lit)	2542.79	-0.0035 426 - 442	1.0477 1.0458	1.0441 -0.3	1.0448 -0.6	1.0471 -0.4
Luxembourg	(Lfr)	54.1575	-0.3284 095 - 655	54.4174 54.1048	54.2425 -1.9	54.3915 -1.8	54.7325 -1.1
Netherlands	(Fl)	2.6187	-0.0024 302 - 307	2.5808 2.5823	2.5818 0.1	2.5825 -0.2	2.5826 0.5
Portugal	(Esc)	202.870	-0.576 111 - 112	213.524 212.530	214.455 -0.5	216.295 -0.3	217.000 -0.1
Spain	(Pts)	161.954	-1.75 003 - 089	263.251 261.808	262.704 -1.2	262.784 -3.3	261.854 -2.8
Sweden	(Skp)	11.9882	-0.0428 780 - 886	12.0592 11.9915	12.0117 -2.4	12.0247 -1.8	12.1602 -1.7
Switzerland	(Sfr)	2.1955	-0.0005 464 - 569	2.2243 2.1902	2.1993 1.4	2.1692 1.3	2.1693 1.4
UK	(£)	1.4940	-0.0002 455 - 545	1.3430 1.3435	1.3474 -1.4	1.3494 -1.1	1.3532 -0.5
US\$	DOLL		-0.9172				
Americas							
Argentina	(Piso)	1.0940	-0.0002 934 - 945	1.4956 1.4556			
Brazil	(Cr)	639.650	-9.923 380 - 287	639.287 628.000			
Canada	(CS)	1.9810	-0.0001 998 - 620	1.9820 1.9657	1.958 1.8	1.993 1.6	1.9385 1.1
Mexico	(New Peso)	4.6389	-0.007 358 - 419	4.6423 4.6353	1.909 2.9	1.486 2.2	1.4718 1.5
Asia							
Pacific/Middle East/Africa							
USA	(US\$)	2.1095	-0.016 080 - 109	2.1233 2.1029	2.105 0.9	2.1056 0.7	2.1037 0.3
Hong Kong	(HKS)	11.5298	-0.0131 355 - 420	11.5605 11.5298	11.5181 2.3	11.4837 1.9	11.3806 1.4
Japan	(Yen)	111.55	-0.275 411 - 425	111.920 111.890	111.949 165.991	3.4	164.726 3.2
Malaysia	(M)	160.086	-1.225 973 - 159	167.080 160.989			167.74
Malaysia	(M)	4.1280	-0.0047 258 - 301	4.1371 4.1225			
New Zealand	(NZ\$)	2.6310	-0.0105 285 - 335	2.6361 2.6250	2.6326 -1.3	2.6382 -1.1	2.6486 -0.6
South Africa	(Rand)	4.1280	-0.0105 285 - 335	4.1371 4.1225	2.6326 -1.3	2.6382 -1.1	2.6486 -0.6
Singapore	(S\$)	5.6021	-0.0074 899 - 942	5.6070 5.5967			
Singapore	(S\$)	2.3961	-0.0073 946 - 976	2.4021 2.3917			
South Africa (Com)	(R)	5.1129	-0.005 100 - 157	5.1178 5.1071			
South Africa (Com)	(R)	8.5739	-0.0618 539 - 623	8.6086 8.5737			
South Korea	(Won)	1208.72	-1.82 804 - 820	1209.94 1207.58			
South Korea	(Won)	39.5313	-0.0494 180 - 445	39.5620 39.4900			
South Korea	(Won)	38.1544	-0.0585 141 - 546	38.1880 38.1544			
* US\$ and SKR rates for Jan 21. Bid/offer spreads in Pound Sterling rates shown only for three decimal places. Forward rates are not directly quoted to the market and are implied by current interest rates. Sterling interest rates collected by the Bank of England. Base exchange rates 1980 = 100.							
* One-way and bid-ask rates in the US and the Dollar Spot rates derived from THE WALL STREET JOURNAL'S CLOSING SPOT RATES = 100.							
* Base values are rounded by the 10th.							

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Canada	2	138	33	71	33	112	+	Harvard	86	22	29	9	9	82	+	Wetix Bank	263339	183	175	185	+	Three Com	100	100	100	50	51	+	Time Con	0.22	71	100	100	50	51	+
Canada	0.59	99	119	71	70	71	112	Harvard	0.54	13	32	28	24	27	25	22	News	62590	85	85	85	85	85	85	+	Tokos Med	8	1002	51	51	51	51	+			
Canada	573	33	34	34	34	34	34	Harper Co	0.20	152	174	164	164	164	164	164	Newspap	23	61	71	71	71	71	71	+	Tokyo Air	0.37	30	54	54	54	54	54	+		
Canada	612	23	23	23	23	23	23	HEO & S	0.30	45	47	46	46	46	46	46	News	100	100	100	100	100	100	100	+	Trans Brown	0.36	114	114	114	114	114	114	+		
Canada	0.84	34	34	34	34	34	34	Healthcar	10	5259	22	22	22	22	22	22	Newsp	0.87	25	41	19	19	19	19	19	+	Trans Co	0.23	33	33	33	33	33	33	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06	18	107	107	107	107	107	107	New Image	11	10308	15	14	14	14	14	14	+	Trans	125	161	161	161	161	161	161	+	
Canada	0.84	34	34	34	34	34	34	Healthcar	0.06																											



